United Nations TD/B/61/1

United Nations Conference on Trade and Development

Distr.: General
14 July 2014

Original: English

**Trade and Development Board**
**Sixty-first session**
Geneva, 15–26 September 2014
Item 2 of the provisional agenda
**Adoption of the agenda and organization of the work of the session**

# Provisional agenda and annotations

*Note by the UNCTAD secretariat*

The provisional agenda for the sixty-first session of the Trade and Development Board is reproduced in chapter I below. The secretariat's annotations, contained in chapter II, are intended to provide essential background information covering the provisional agenda items, together with a brief description of the relevant documentation.

A checklist of documents relating to all agenda items will be issued at the beginning of the session.

GE.14-08318 (E)
*1408318*

Please recycle

# I. Provisional agenda

1. Election of officers
2. Adoption of the agenda and organization of the work of the session
3. High-level segment: Tackling inequality through trade and development: A post-2015 challenge
4. Interdependence: Trade and development policy challenges for a sustained recovery of the global economy
5. Contribution of UNCTAD to the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020: Third progress report
6. Economic development in Africa: Catalysing investment for transformative growth in Africa
7. Evolution of the international trading system and its trends from a development perspective
8. Development strategies in a globalized world: Policymaking in an evolving framework of global governance
9. Investment for development: Investing in the sustainable development goals
10. UNCTAD contributions to the implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields
11. Technical cooperation activities
    (a) Review of the technical cooperation activities of UNCTAD
    (b) Report on UNCTAD assistance to the Palestinian people
12. Matters requiring action by the Board in the follow-up to the thirteenth session of the Conference
    (a) Follow-up to the Joint Inspection Unit report and the agreed conclusions of the twenty-sixth special session of the Trade and Development Board on 6 July 2012
    (b) Report of the UNCTAD Public Symposium
13. Other matters in the field of trade and development
    (a) Progressive development of the law of international trade: Forty-sixth annual report of the United Nations Commission on International Trade Law
    (b) Report of the Joint Advisory Group on the International Trade Centre
14. Report of the Working Party on the Strategic Framework and the Programme Budget
15. Institutional, organizational, administrative and related matters
    (a) Report by the Chair of the Advisory Body set up in accordance with paragraph 166 of the Bangkok Plan of Action on the implementation of courses by the secretariat in 2013–2014 and their relevant impact; and the appointment of members of the Advisory Body for 2015

(b) Designation of intergovernmental bodies for the purposes of rule 76 of the rules of procedure of the Board

(c) Designation of non-governmental organizations for the purposes of rule 77 of the rules of procedure of the Board

(d) Review of the calendar of meetings

(e) Membership of the Working Party for 2015

(f) Review of the lists of States contained in the annex to General Assembly resolution 1995 (XIX)

(g) Administrative and financial implications of the actions of the Board

16. Adoption of the report on credentials

17. Provisional agenda for the sixty-second session of the Board

18. Other business

19. Adoption of the report

## II. Annotations to the provisional agenda

1. The provisional agenda of the sixty-first session of the Trade and Development Board was approved at the closing plenary meeting of the fifty-ninth executive session of the Trade and Development Board on 25 June 2014.

### Item 1
### Election of officers

2. The rules of procedure of the Trade and Development Board are contained in documents TD/B/16/Rev.4 and Corr.1.

3. In accordance with rules 18 and 19 of the rules of procedure, the Bureau of the Board consists of 12 members: the President, 10 Vice-Presidents and the Rapporteur, i.e. four members from list A (Africa/Asia), four from list B, two from list C and two from list D, as referred to in the annex to General Assembly resolution 1995 (XIX), as amended.

4. In accordance with the cycle of rotation that has been in operation since the ninth session of the United Nations Conference on Trade and Development (UNCTAD IX), the President of the Board for the sixty-first session will be a representative of one of the States in list B and the Rapporteur will be a representative of one of the States in list A (Africa). The 10 Vice-Presidents will therefore be as follows: three from list A (Africa/Asia); three from list B; two from list C; and two from list D.

### Item 2
### Adoption of the agenda and organization of the work of the session

*Agenda*

5. The provisional agenda for the session is reproduced in chapter I above.

*Organization of work*

6. In order to accommodate the suggestions made by delegations, meetings of the session of the Board have been organized in such a way as to ensure that no two meetings will take place simultaneously. They have been designed with a view to ensuring effective participation by delegations, particularly small delegations, and also to making the most efficient use of the conference resources of the United Nations.

*Establishment of sessional committees*

7. In accordance with rule 62 of its rules of procedure, the Board may wish to set up two sessional committees. It is proposed to allocate agenda item 5 to Sessional Committee I and agenda item 6 to Sessional Committee II.

## Item 3
## High-level segment: Tackling inequality through trade and development: A post-2015 challenge

8. Under this agenda item, delegates and panellists will examine the challenges that global inequality poses for achieving inclusive and sustainable growth. Income and wealth inequality have increased significantly in the last few decades. The share of labour income in world gross output declined significantly in the last three decades, a trend that has affected developed, developing and transition economies alike. The concomitant rise in profit shares has failed to stimulate productive investment and has instead been used for dividend payments, acquisitions and share buybacks. Furthermore, high inequality has been a source of deep and destructive economic crises by encouraging perverse financial incentives and rising levels of private indebtedness. Indeed, the global financial crisis greatly increased awareness of the close association between growing inequality, the rise of unregulated financial markets and the threat to economic and social security from shocks and crises.

9. Identifying the right strategies to improve income distribution at the global level must therefore represent a priority in the agenda of the international community. In this respect, the crucial variables to look at for addressing inequalities and achieving social cohesion are jobs and labour income, as well as public redistribution policies. The attention that UNCTAD has devoted to these issues, and in particular to the tendency for wages to lag behind productivity growth, highlights its potential contribution to elaborating appropriate strategies to reduce inequality.

*Documentation*

| | |
|---|---|
| TD/B/61/7 | Tackling inequality through trade and development in the post-2015 development agenda |

## Item 4
## Interdependence: Trade and development policy challenges for a sustained recovery of the global economy

10. Deliberations by the Trade and Development Board under this agenda item will provide an opportunity to review how the performance of the world economy has evolved in 2013 and 2014. This review will analyse drivers and weaknesses of the economic recovery after the global crisis and highlight the interdependence between the economic performance of developed and developing countries as well as transition economies.

11. Special attention will be given to the current situation of international finance and the shortcomings of the rules governing international capital movements. The debate will discuss how different groups of countries can manage capital inflows in order to strengthen real investment and reduce potential adverse macroeconomic effects.

12. As background documentation for the Board's deliberations, chapters I, II and V of the *Trade and Development Report, 2014* review the trends in the world economy, examine the consistency and sustainability of the economic policies currently followed by the main countries and group of countries, and analyse how financial spillovers affect global economic interdependence. Finally, the chapters discuss how countries can better manage capital flows in order to expand their policy space for pursuing their development strategies.

*Documentation*

| | |
|---|---|
| UNCTAD/TDR/2014 and Overview | *Trade and Development Report, 2014: Global Governance and Policy Space for Development* |

## Item 5
## Contribution of UNCTAD to the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020: Third progress report

13. As at previous sessions, the Board at its sixty-first session will deliberate on progress in implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020 (Istanbul Programme of Action) in the areas of the mandates and competence of UNCTAD. The Board's consideration of item 5 on the provisional agenda will be based on the third progress report prepared by the secretariat, in accordance with paragraphs 153 and 156 of the Istanbul Programme of Action. The report provides comprehensive information on the UNCTAD contribution to the implementation of the Istanbul Programme of Action in 2013, together with preliminary lessons and policy recommendations for the further implementation of the relevant actions and commitments contained therein.

*Documentation*

| | |
|---|---|
| TD/B/60/8 | Contribution of UNCTAD to the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020: Third progress report |

## Item 6
## Economic development in Africa: Catalysing investment for transformative growth in Africa

14. This agenda item will consider the *Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa*, which shows that Africa's recent growth has not been associated with any significant change in investment rates and, in this context, examines how African Governments can catalyse investment for sustained and transformative growth. The report underscores the need to enhance the contribution of investment to growth through boosting investment rates, improving the productivity of existing and new investments and ensuring that investment goes to strategic and priority sectors deemed crucial for economic transformation. It also stresses the importance of strengthening linkages between local and foreign enterprises, stemming capital flight to release more resources for investment, using aid to stimulate investment and fostering

international trade to boost investment. In each of these areas, the report emphasizes the need for policy coherence at the national and international levels.

*Documentation*

| | |
|---|---|
| TD/B/61/4 | Economic development in Africa: Catalysing investment for transformative growth in Africa (overview) |
| UNCTAD/ALDC/AFRICA/2014 | *Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa* |

## Item 7
## Evolution of the international trading system and its trends from a development perspective

15. Paragraph 18 (d) of the Doha Mandate of the thirteenth session of the United Nations Conference on Trade and Development (UNCTAD XIII) states that UNCTAD should "continue to monitor and assess the evolution of the international trading system and its trends from a development perspective". In response to this mandate, under this agenda item the Trade and Development Board will deliberate on agricultural trade, poverty reduction and sustainable development in view of the formulation of a United Nations post-2015 development agenda. It will examine trends in international trade in agriculture, market access issues pertaining to tariffs and non-tariff measures in the agricultural sector, agricultural subsidies in the form of producer support and the interface between agriculture, trade and poverty reduction. The treatment of trade in agriculture in multilateral and regional agreements will be discussed, with a view to discussing policy issues that can contribute to creating a coherent international framework for enhancing economically viable agricultural trade for achieving inclusive and sustainable economic growth.

*Documentation*

| | |
|---|---|
| TD/B/61/2 | Evolution of the international trading system and its trends from a development perspective |

## Item 8
## Development strategies in a globalized world: Policymaking in an evolving framework of global governance

16. Deliberations by the Trade and Development Board under this agenda item will address national policy space under the evolving rules of global governance, a topic that has been central to UNCTAD work since 1964. The topic has become particularly important since the eruption of the global crisis, which showed the need to put in place new growth patterns, a task that cannot be left to unregulated market forces. Delegates will have the opportunity to discuss to what extent Governments (particularly those of developing countries) have adequate room to manoeuvre in implementing the trade, industrial and fiscal policies needed for structural transformation and adequate means to use and enlarge existing policy space in these areas.

17. The background documentation for the deliberations of the Board under this item is contained in chapters III, IV and VI of the *Trade and Development Report, 2014*, which address the evolution and current conditions of the policy space needed for implementing growth-enhancing and inclusive development strategies. Policy space depends not only on the existing rules and commitments in the World Trade Organization and in bilateral or other plurilateral agreements, but also on the possibility of mobilizing resources for

financing industrial policies, investment and growth. From a developmental State point of view, fiscal space is a key aspect of policy space. In this context, developing countries need to look at ways to address the loss of revenues stemming from illicit financial flows, tax havens and inadequate taxation of the extractive industries.

*Documentation*

UNCTAD/TDR/2014 and Overview — *Trade and Development Report, 2014: Global Governance and Policy Space for Development*

## Item 9
## Investment for development: Investing in the sustainable development goals

18. The sustainable development goals currently being formulated by the United Nations and a wide range of stakeholders will require a step change in both private and public investment. Public sector contributions will remain indispensable, but the scale of investment needed to meet demands across all sectors related to the sustainable development goals means that mobilizing private sector contributions will be critical to the realization of those goals. Nevertheless, increasing private sector contributions poses challenges and policy dilemmas which must be addressed.

19. The session will present the analysis, findings and proposals in the *World Investment Report 2014: Investing in the Sustainable Development Goals – An Action Plan*, which focused on promoting private sector contributions and examined the topic in depth. This will be followed by a range of perspectives from eminent panellists and a subsequent interactive dialogue among participants and panellists. The discussion will assess the investment gap that needs to be filled to achieve the sustainable development goals; the primary sources from which these funds can be obtained and how best to mobilize them; how to channel the funds effectively into sustainable development goal sectors; and how to maximize the positive impact of such investment while minimizing risks and drawbacks. The discussion will reflect on the proposed UNCTAD action plan for investment in the sustainable development goals.

20. The session will also provide an opportunity for a briefing by the secretariat on the latest developments regarding trends in and policies on foreign direct investment.

*Documentation*

UNCTAD/WIR/2014 and Overview — *World Investment Report 2014: Investing in the Sustainable Development Goals – An Action Plan*

## Item 10
## UNCTAD contributions to the implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields

21. In its resolution 57/270 B, the General Assembly stressed the need to make maximum use of existing United Nations mechanisms for the purpose of reviewing the implementation of commitments made within the United Nations system in key areas of development. In this regard, it invited the Trade and Development Board to contribute, within its mandate, to the implementation and review of the progress made in the implementation of the outcomes of the major United Nations conferences and summits, under its relevant agenda items.

22. Paragraph 11 of the Accra Accord states that:

> UNCTAD, within its mandate, should make a contribution to the implementation and follow-up to the outcomes of relevant global conferences. It should continue to contribute to the achievement of the internationally agreed development goals, including the Millennium Development Goals. With all aspects of its work it will help to implement the global development agenda and pave the way to 2015. It should also contribute to the implementation of specific actions requested in the 2005 World Summit, the Programme of Action for the Least Developed Countries for the Decade 2001–2010, the Monterrey Consensus of the International Conference on Financing for Development, the Johannesburg Plan of Implementation agreed at the World Summit on Sustainable Development, and the Declaration of Principles and the Plan of Action of the World Summit on the Information Society. It should also contribute to furthering the implementation of the internationally agreed goals in the Doha Ministerial Declaration and other relevant decisions.

23. Similarly, paragraphs 18 and 18 (n) of the Doha Mandate state that "UNCTAD should continue to work within its mandate – through its three pillars, delivering meaningful results, utilizing available resources, while enhancing synergies and promoting complementarities with the work of other organizations. In this regard, UNCTAD should… implement and follow up, as appropriate, relevant outcomes from global conferences and summits on development".

24. The Board is expected to respond to the request addressed to it by the General Assembly in paragraph 27 (a) of resolution 57/270 B on the basis of a note prepared by the UNCTAD secretariat.

*Documentation*

| | |
|---|---|
| TD/B/61/5 | Progress made in the implementation of the outcomes of the major United Nations conferences and summits, and UNCTAD contributions |

## Item 11
## Technical cooperation activities:

### (a) Review of the technical cooperation activities of UNCTAD

25. The Board will review the technical cooperation activities undertaken in 2013, as well as developments in UNCTAD's technical cooperation – in particular, matters of capacity-building related to trade and investment, and issues related to progress in the implementation of decision 478 (L) of the Board regarding technical cooperation. In considering this item, the Board will have as supporting background documentation the outcome of the sixty-eighth session of the Working Party on the Strategic Framework and the Programme Budget, due to be held from 3 to 5 September 2014, and a review of technical cooperation activities undertaken in 2013.

*Documentation*

| | |
|---|---|
| TD/B/WP/262 | Review of the technical cooperation activities of UNCTAD and their financing |
| TD/B/WP/262/Add.1 | Review of the technical cooperation activities of UNCTAD and their financing – Annex I: Review of activities undertaken in 2013 (English only) |
| TD/B/WP/262/Add.2 | Review of the technical cooperation activities of UNCTAD and their financing – Annex II: Statistical tables (English only) |

*Documentation*

| | |
|---|---|
| TD/B/WP/265 | Report of the Working Party on the Strategic Framework and the Programme budget on its sixty-eighth session |

**(b) Report on UNCTAD assistance to the Palestinian people**

26. As in previous years, the UNCTAD report on assistance to the Palestinian people will provide the Trade and Development Board with a summary of recent economic developments in the Occupied Palestinian Territory. The message is that the socioeconomic conditions worsened in 2013 and are expected to deteriorate further due to the persistence of the restrictions imposed on Palestinian economic activity by the Israeli occupation. In the context of the ongoing destruction of the Palestinian productive base and other Israeli measures, the report will highlight the consequences of the Israeli restrictions on Palestinian economic activity in Area C (two thirds of the total area of the West Bank). The report will also highlight ongoing and forthcoming UNCTAD technical cooperation activities in the Occupied Palestinian Territory and the challenges faced in the implementation of such activities.

*Documentation*

| | |
|---|---|
| TD/B/61/3 | Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory |

## Item 12
## Matters requiring action by the Board in the follow-up to the thirteenth session of the Conference:

**(a) Follow-up to the Joint Inspection Unit report and the agreed conclusions of the twenty-sixth special session of the Trade and Development Board on 6 July 2012**

27. The Conference at its thirteenth session in Doha (UNCTAD XIII) decided that the annual sessions of the Trade and Development Board would consider and evaluate progress on the implementation of decisions in relation to the Joint Inspection Unit report and take action, as appropriate. The Trade and Development Board at its fifty-ninth session considered a workplan for enhancing the management and administration of UNCTAD, which was developed in accordance with the agreed conclusions of the twenty-sixth special session of the Trade and Development Board held on 6 July 2012. At the fifty-ninth session, the Board requested the secretariat to enhance the management and administration of UNCTAD through the implementation of the workplan presented at the session, as contained in document TD/B/59/CRP.2, and based on the deliberations of the Board. The Board also requested a comprehensive progress report on implementation at its sixtieth session in September 2013. At the sixtieth session, the Board considered the progress report on the implementation of the workplan, as contained in document TD/B/60/5 and requested the secretariat to continue implementation of the workplan and present the next progress report on implementation at its sixty-first session in September 2014. The secretariat will report on the implementation of the workplan for enhancing the management and administration of UNCTAD.

*Documentation*

| | |
|---|---|
| TD/B/61/9 | Building a stronger UNCTAD |
| TD/B/60/5 | Progress report on the implementation of the workplan for enhancing the management and administration of UNCTAD |
| JIU/REP/2012/1 | Review of management and administration in the United Nations Conference on Trade and Development (UNCTAD) |

*Documentation*

| | |
|---|---|
| TD/B(S-XXVI)/CRP.1 | UNCTAD Management Response to the Joint Inspection Unit Review of Management and Administration in the United Nations Conference on Trade and Development |
| TD/B(S-XXVI)/2 | Report of the Trade and Development Board on its twenty-sixth special session |
| TD/B/59/CRP.2 | Workplan for enhancing the management and administration of UNCTAD |
| TD/B/59/7 | Report of the Trade and Development Board on its fifty-ninth session (decision 516 (LIX)) |

**(b) Report of the UNCTAD Public Symposium**

28. The report of the fifth UNCTAD Public Symposium, which took place from 18 to 19 June 2014, will be before the Board for its consideration.

*Documentation*

| | |
|---|---|
| TD/B/61/6 | Report on the fifth UNCTAD Public Symposium – A better world economic order for equality and sustainable development post-2015 |

## Item 13
## Other matters in the field of trade and development:

**(a) Progressive development of the law of international trade: Forty-sixth annual report of the United Nations Commission on International Trade Law**

29. In accordance with General Assembly resolution 2205 (XXI), the report of the forty-seventh session of the United Nations Commission on International Trade Law will be before the Board.

*Documentation*

| | |
|---|---|
| A/69/17 | Report of the United Nations Commission on International Trade Law on its forty-seventh session |

**(b) Report of the Joint Advisory Group on the International Trade Centre**

30. At its forty-eighth session held from 11 to 12 June 2014, the Joint Advisory Group on the International Trade Centre reviewed the Centre's technical cooperation activities.

## Item 14
## Report of the Working Party on the Strategic Framework and the Programme Budget

31. The report of the Working Party on its sixty-eighth session will be before the Board for its consideration.

*Documentation*

| | |
|---|---|
| TD/B/WP/265 | Report of the Working Party on the Strategic Framework and the Programme Budget on its sixty-eighth session |

## Item 15
## Institutional, organizational, administrative and related matters:

**(a) Report by the Chair of the Advisory Body set up in accordance with paragraph 166 of the Bangkok Plan of Action on the implementation of courses by the secretariat in 2013–2014 and their relevant impact; and the appointment of members of the Advisory Body for 2015**

32. In accordance with Board decision 466 (XLVII), the Chairman of the Advisory Body will inform the Board about the activities of the Advisory Body and about the implementation of paragraph 166 of the Bangkok Plan of Action. The Board will be invited to appoint members of the Advisory Body for 2015, on the basis of the recommendations of the regional groups.

**(b) Designation of intergovernmental bodies for the purposes of rule 76 of the rules of procedure of the Board**

33. The UNCTAD secretariat has received one application requesting inclusion in the list provided for in rule 76 of the rules of procedure of the Board. A list of the approved intergovernmental organizations is contained in document TD/B/IGO/LIST/10.

*Documentation*

| | |
|---|---|
| TD/B/61/R.3 | Application from the Indian Ocean Rim Association |

**(c) Designation of non-governmental organizations for the purposes of rule 77 of the rules of procedure of the Board**

34. The UNCTAD secretariat has received two applications requesting inclusion in the list provided for in rule 76 of the rules of procedure of the Board.

*Documentation*

| | |
|---|---|
| TD/B/61/R.1 | Application from the International Federation of Multimedia Associations |
| TD/B/61/R.2 | Application from the Réseau Intercontinental de Promotion de l'Économie Sociale Solidaire |

35. A list of the approved non-governmental organizations is contained in document TD/B/NGO/LIST/16.

**(d) Review of the calendar of meetings**

36. The Board will have before it the calendar of meetings for the remainder of 2014 and for 2015.

*In-session documentation*

**(e) Membership of the Working Party for 2015**

37. The Board will be required to approve the membership of the Working Party for 2015 on the basis of nominations from the regional groups.

*In-session documentation*

**(f) Review of the lists of States contained in the annex to General Assembly resolution 1995 (XIX)**

38. The Board will have before it, as appropriate, the updated membership list of UNCTAD and the Board.

*Documentation*

| | |
|---|---|
| TD/B/INF.228 | Membership of UNCTAD and membership of the Trade and Development Board |

**(g) Administrative and financial implications of the actions of the Board**

39. The Board will be informed during the session of the administrative and financial implications of any proposals before it.

*In-session documentation, if required*

## Item 16
## Adoption of the report on credentials

40. In accordance with rule 17.2 of the rules of procedure, the Bureau of the Board will examine the credentials and submit its report to the Board.

*In-session documentation*

## Item 17
## Provisional agenda for the sixty-second session of the Board

41. The draft provisional agenda for the sixty-second session of the Board will be prepared by the secretariat. The Board may wish to refer consideration of this item to the consultations of the President of the Board with the Bureau and coordinators.

## Item 18
## Other business

## Item 19
## Adoption of the report

42. In accordance with paragraph 195 of the Accra Accord, the report of the Board to the General Assembly will contain negotiated outcomes on Africa, least developed countries and technical cooperation, as well as Chairs' summaries and negotiated outcomes addressed to the secretariat.

United Nations TD/B/61/1/Corr.1

United Nations Conference on Trade and Development

Distr.: General
31 July 2014

Original: English
Arabic, English and Spanish only

**Trade and Development Board**
**Sixty-first session**
Geneva, 15–26 September 2014
Item 2 of the provisional agenda
**Adoption of the agenda and organization of the work of the session**

# Provisional agenda and annotations

**Corrigendum**

1. **Pages 2 and 10, provisional agenda item 13 (a)**
*For* Forty-sixth *read* Forty-seventh

2. **Page 11, paragraph 34**
*For* rule 76 *read* rule 77

GE.14-09813 (E)
*1409813*

Please recycle

United Nations TD/B/61/2

United Nations Conference on Trade and Development

Distr.: General
7 July 2014

Original: English

**Trade and Development Board**
**Sixty-first session**
Geneva, 15–26 September 2014
Item 7 of the provisional agenda

# Evolution of the international trading system and its trends from a development perspective

**Note by the UNCTAD secretariat**

*Executive summary*

International trade presents great potential for enabling inclusive and sustainable economic development. Trade in agriculture, in particular, may generate impetus for economic growth, enhanced food security and inclusive and sustainable development in the post-2015 period. The World Trade Organization (WTO) Doha Round of negotiations was mandated to further pursue the reform of agricultural trade by liberalizing market access, substantially reducing domestic support subsidies and abolishing export subsidies.

Given the concentration of absolute poor in rural areas in low-income countries, and the importance of agricultural trade for women's economic empowerment and employment, a special focus on agriculture in the post-2015 development framework would have a significant impact on efforts to eliminate absolute poverty in 2015–2030.

Regional trade agreements, including megaregional agreements under negotiation, do not address many important aspects of agricultural trade, including domestic and export subsidies, and hence cannot replace the multilateral process.

The concurrence of multilateral negotiations – the post-2015 development agenda and the WTO Doha Round of negotiations (including the decisions adopted at the Ninth Ministerial Conference, held in Bali, Indonesia in 2013) – presents a unique opportunity to establish global policy coherence that firmly connects international trade to inclusive and sustainable growth. Treating trade exclusively as a matter for the multilateral trading system and multilateral trade negotiations, as it is in the Millennium Development Goals, would risk not only jeopardizing such coherence at the global level, but also undermine the enabling role of international trade in the post-2015 development framework.

GE.14-07656 (E)
*1407656*

Please recycle

## Introduction

1. The sixty-ninth session of the United Nations General Assembly will open on 16 September 2014 and its deliberations will include the articulation of a post-2015 development agenda and sustainable development goals.[1] At the time of preparation of the present document, one substantive set of recommendations for the post-2015 development agenda is being discussed by the Open Working Group on Sustainable Development Goals, established following the United Nations Conference on Sustainable Development. The sustainable development goals to be proposed by the Open Working Group are expected to consist of a set of goals, targets and indicators that are essential for achieving economic, social and environmental sustainability in the years beyond 2015. In the Open Working Group discussions up to June 2014 and the Introduction and Proposed Goals and Targets on Sustainable Development for the Post-2015 Development Agenda document prepared by the co-Chairs of the Open Working Group, issues linked to international trade were primarily treated under the goal of strengthening and enhancing the "means of implementation and global partnership for sustainable development".[2]

2. There is no doubt that international trade presents great potential for enabling inclusive and sustainable economic development. This concept was elaborated and accepted as conventional wisdom 50 years previously at the establishment of UNCTAD. The Final Act of the first session of the United Nations Conference on Trade and Development states: "The extensive development of equitable and mutually advantageous international trade creates a good basis for the establishment of neighbourly relations between States, helps to strengthen peace and an atmosphere of mutual confidence and understanding among nations and promotes higher living standards and more rapid economic progress in all countries of the world."[3] By connecting developing-country producers and consumers to global markets, trade – through both exports and imports – provides a critical channel for the flow of finance, technology and services needed to further improve productive capacity in agriculture, industry and services, which in turn are needed for structural transformation of economies.[4]

3. In practical terms, international trade becomes an enabler of inclusive and sustainable development, provided that:

(a) Trade increases a population's earning capacity at a quicker pace and/or a greater magnitude than by simply servicing the domestic market (i.e. international prices for products and services are higher than domestic prices) and/or using only domestically available productive inputs, including services;

(b) Trade increases job and income opportunities for a country's working population, including the marginalized and vulnerable groups and persons at the absolute poverty level, both urban and rural;

(c) Trade improves access to the essential goods, services and technology for economic and social well-being and for environmental sustainability.

---

[1] A/68/202.

[2] Open Working Group on Sustainable Development Goals, 2014, Introduction and proposed goals and targets on sustainable development for the post-2015 development agenda, 2 June, available at http://sustainabledevelopment.un.org/content/documents/4044140602workingdocument.pdf (accessed 1 July 2014).

[3] UNCTAD, 1964, Proceedings of the United Nations Conference on Trade and Development, vol. I (New York, Sales no. 64.II.B.11, United Nations publication).

[4] TD/B/C.I/33.

4. In this regard, special account should be taken of the agreed conclusions adopted by UNCTAD member States at the sixth session of the Trade and Development Commission, held in May 2014, particularly their recognition that "the role of trade in development should be adequately reflected in the post-2015 development agenda and sustainable development goals as a key enabler and means to achieve inclusive economic growth and sustainable development".[5]

5. Agriculture plays a decisive role in the attainment of development goals ranging from poverty reduction to productive employment, to environmental sustainability. This topic is elaborated on in section E of the present document.

6. Against this background, and taking stock of recent UNCTAD research, intergovernmental discussions and technical assistance, this document focuses on agricultural trade for two main reasons. First, addressing agricultural trade remains a key element for a meaningful conclusion to the Doha Round and effective implementation of the WTO Uruguay Round of negotiations (i.e. article 20 of the Agreement on Agriculture). Second, improved trade in agricultural goods can be instrumental in fostering inclusive and sustainable development in the post-2015 period.

7. This document presents trends in agricultural trade flows and trade policies. It then reviews the interlinkages between improving agricultural viability and poverty reduction, women's economic empowerment, food security and environmental sustainability, all of which are among the mainstays of the post-2015 development agenda. The review is presented against the backdrop of the reality of the international trading system today, i.e. the growing opening up of markets though preferential trade arrangements at bilateral or regional levels (regional trade agreements).

8. Concluding remarks are presented with the aim of facilitating the discussion by member States of this agenda item.

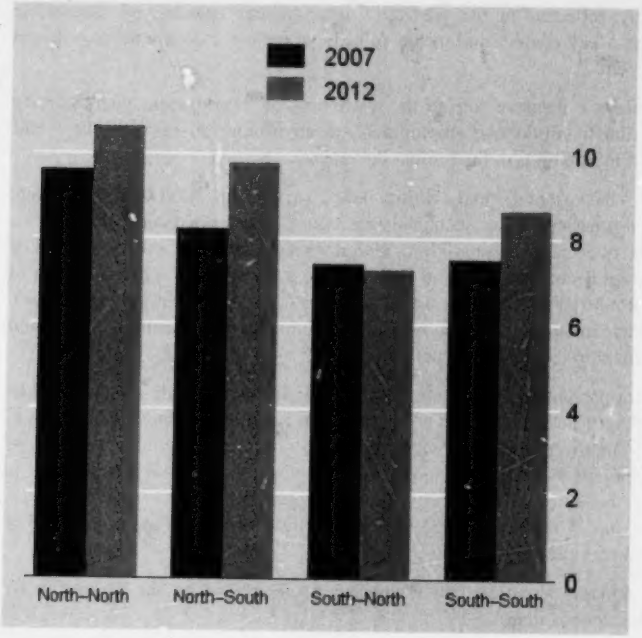
# I. Agricultural trade, poverty reduction and sustainable development

## A. Trends in international trade in agriculture

9. Between 2007 and 2012, the share of agricultural goods in global trade remained relatively stable and was 8.3 per cent of total trade in 2007 and 9.2 per cent in 2012. Figure 1 provides a breakdown of agricultural trade in each of the four trade flows in 2007 and 2012: from developed countries to other developed countries (North–North), between developed and developing countries (North–South and South–North) and from developing countries to developing countries (South–South). Agricultural trade claims the highest share in the North–North trade flow, followed by North–South, South–South and finally South–North. The share of agricultural exports in both the South–South and North–South flows increased by around 4 percentage points in five years, which indicates an increasing demand for agricultural products in the South. The year-on-year growth in agricultural trade during the period under consideration was 3.8 per cent in the South–South flow and an impressive 14.6 per cent in the North–South flow and in both cases exceeded the growth of non-agricultural trade.

[5] TD/B/C.I/35.

Figure 1
**Share of agriculture in total trade by trade flow**
(Percentage)




*Source*: United Nations Comtrade database, available at http://comtrade.un.org/, and UNCTAD secretariat calculations.

10. The composition of agricultural products traded in each flow is quite different, as shown in table 1. In 2012, South–South agricultural exports consisted largely of staple foodstuffs such as sugar, rice and maize, as well as soya beans, which together accounted for 21 per cent of the total agricultural products traded among developing countries. Compared to their ranking in 2007, these staple crops rose to replace agricultural raw materials such as wood and wood products in the list of top 10 products. On the other hand, the top 10 South–North agricultural exports included cash crop types of exports such as coffee, fish, crustaceans and bananas, and showed little change compared to their ranking in 2007. With regard to North–South agricultural exports, the top 10 list included basic foodstuffs such as wheat, soya beans, milk, cotton and maize, almost all of which received high producer support domestically. Relatively high-value products such as wine, meat and cheese accounted for a large portion of North–North agricultural exports.

Table 1

**2012 top 10 most exported agricultural products (at the Harmonized System four-digit level), by trade flow**

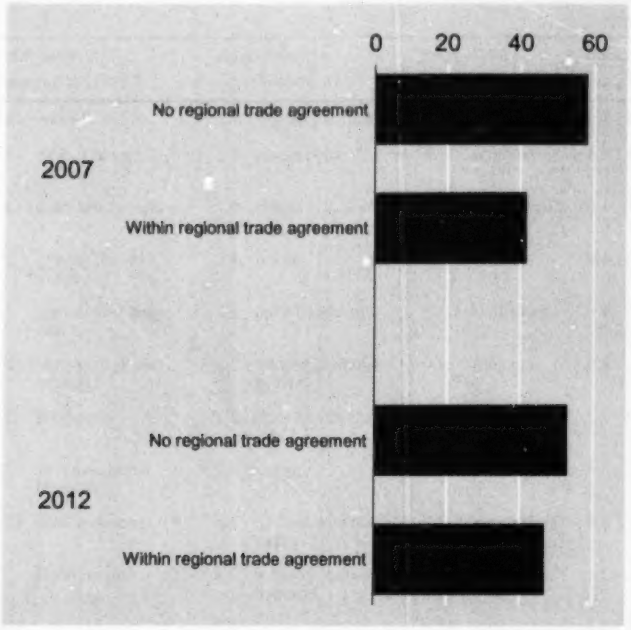
(Percentage)

| | *South–South (US$440 billion total)* | | *South–North (US$296 billion total)* | | *North–South (US$313 billion total)* | | *North–North (US$612 billion total)* | |
|---|---|---|---|---|---|---|---|---|
| 1 | palm oil | 7.0 | coffee | 6.7 | wheat and meslin | 7.1 | wine | 3.8 |
| 2 | soya beans | 5.6 | natural rubber | 3.8 | soya beans | 7.1 | meat (pork) | 3.4 |
| 3 | cane or beet sugar | 4.6 | crustaceans | 3.6 | milk and cream | 4.1 | cheese and curd | 3.4 |
| 4 | natural rubber | 4.0 | oil cake | 3.5 | cotton | 3.2 | bread, pastry, cakes | 3.0 |
| 5 | rice | 4.0 | fish fillets | 3.5 | prepared food | 2.8 | cigars, cigarettes, etc. | 2.7 |
| 6 | maize | 3.6 | bananas | 3.0 | alcohol, spirits, liqueur | 2.7 | alcohol, spirits, liqueur | 2.6 |
| 7 | wheat and meslin | 3.2 | palm oil | 2.7 | synthetic rubber, etc. | 2.7 | chocolate | 2.5 |
| 8 | oil cake | 2.7 | prepared fish | 2.5 | maize | 2.7 | wood, sawn or chipped | 2.4 |
| 9 | cotton | 2.5 | fruit juices | 2.1 | waste and scrap paper | 2.5 | prepared food | 2.4 |
| 10 | fish, frozen | 2.1 | soya beans | 2.1 | wood, sawn or chipped | 2.4 | meat (beef) | 2.4 |
| **Total** | | **39.4** | | **33.6** | | **37.3** | | **28.4** |

*Source*: United Nations Comtrade database, available at http://comtrade.un.org/, and UNCTAD Trade Analysis and Information System database, available at http://wits.worldbank.org/.

11. Trade in agricultural products is also growing quickly within the framework of regional trade agreements, as depicted in figure 2. With a rise in the number of such agreements in force, the share of world agricultural trade increased from 45 per cent to 51 per cent of total trade within such agreements between 2007 and 2012. The figures for non-agricultural products show a similar trend; trade within regional trade agreements increased from 38 per cent in 2007 to 43 per cent in 2012. Agricultural trade within regional trade agreements experienced larger growth over this period, annually at 8.2 per cent, compared to non-agricultural trade within regional trade agreements, which grew by 5.8 per cent annually. Outside regional trade agreements, agricultural trade grew by 3.3 per cent and non-agricultural trade by 2 per cent.

Figure 2
**Share of agricultural trade within and outside regional trade agreements**
(Percentage)




*Source*: United Nations Comtrade database, available at http://comtrade.un.org/, and UNCTAD secretariat calculations.

## B. Tariffs in the agricultural sector

12. Global tariff liberalization over the last decades has lowered tariffs on agricultural products, but they are on average still relatively high, ranging from 4 per cent for animal products and food products to almost 8 per cent for vegetable products, as shown in figure 3(a). In comparing the tariff restrictiveness between the North and the South in 2012, it may be seen that developing countries' agricultural tariffs remain at a higher level, between 10 per cent and 15 per cent, as shown in figure 3(b).

Figure 3 (a)

**Total tariffs restrictiveness index by economic sector**

(Percentage)

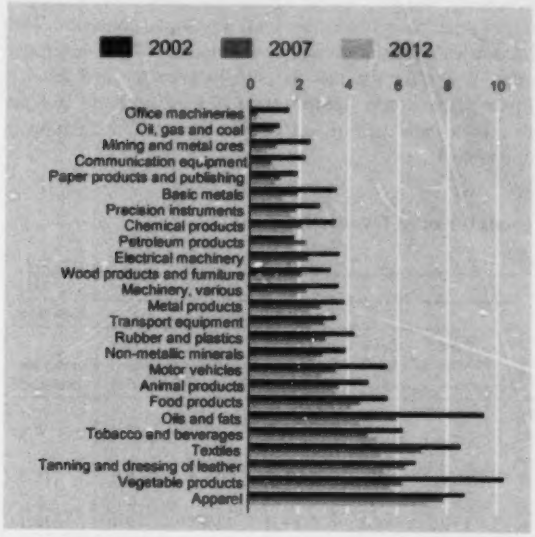
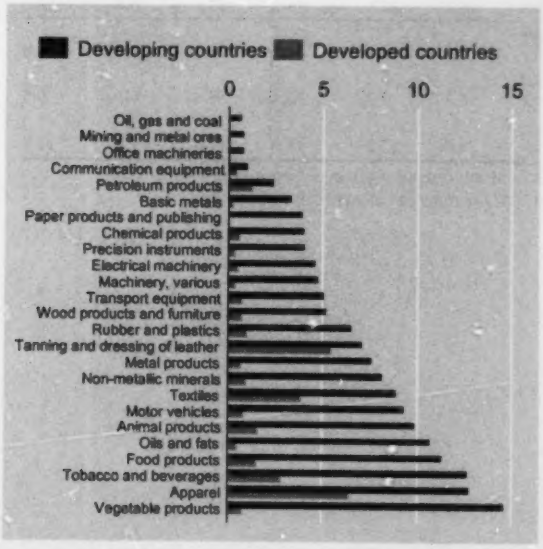



Figure 3 (b)

**Total tariffs restrictiveness index in developing and developed countries by economic sector in 2012**

(Percentage)




*Note*: The total tariffs restrictiveness index calculates the uniform tariff that will keep a country's overall imports at the current level when the country in fact has different tariffs for different goods.

*Source*: UNCTAD Trade Analysis and Information System database, available at http://wits.worldbank.org/, and UNCTAD secretariat calculations.

13. Applied rates on agricultural goods for most favoured nations vary significantly across different trade flows. Table 2 provides simple and trade-weighted averages of agricultural tariffs of different groups of countries against exports of different origins. When measured as a simple average, the highest level of agricultural protection is the one imposed by least developed countries on exports from other least developed countries. With regard to tariffs in high-income countries against agricultural exports from least developed countries and developing countries, it is observed that the simple average tariff level is relatively lower, but the variability or dispersion is significant, at 17.8 per cent and 16.8 per cent respectively. This is due to a high incidence of tariff peaks and tariff escalation in high-income countries, as shown in table 3.

Table 2

**Applied rates on agricultural goods for most favoured nations**

(Percentage)

| | | | *2007* | | | *2012* | | |
|---|---|---|---|---|---|---|---|---|
| | | | *Exporters* | | | *Exporters* | | |
| | | | *High-income countries* | *Least developed countries* | *Developing countries* | *High-income countries* | *Least developed countries* | *Developing countries* |
| **Simple average** | *Importers* | *High-income countries* | 3.7 | 3.4 | 6.7 | 4.2 | 3.4 | 4.1 |
| | | *Least developed countries* | 16.5 | 15.6 | 15.9 | 15.8 | 18.0 | 16.3 |
| | | *Developing countries* | 15.2 | 15.4 | 14.2 | 12.7 | 9.4 | 12.1 |
| **Trade-weighted average** | *Importers* | *High-income countries* | 2.0 | 5.2 | 13.8 | 1.1 | 5.2 | 4.3 |
| | | *Least developed countries* | 11.9 | 13.4 | 10.0 | 10.3 | 18.4 | 10.5 |
| | | *Developing countries* | 14.2 | 22.1 | 14.2 | 13.8 | 6.5 | 12.6 |
| **Variability of simple averages (standard deviation)** | *Importers* | *High-income countries* | 5.3 | 17.8 | 44.6 | 5.5 | 17.8 | 16.8 |
| | | *Least developed countries* | 10.3 | 9.9 | 10.6 | 9.4 | 9.5 | 9.9 |
| | | *Developing countries* | 21.0 | 23.5 | 18.6 | 17.4 | 11.8 | 13.8 |

*Source*: UNCTAD Trade Analysis and Information System database, available at http://wits.worldbank.org/, and UNCTAD secretariat calculations.

Table 3
**Tariff peaks and tariff escalation in high-income countries of the Organization for Economic Cooperation and Development[a]**
(Percentage)

| | 2000 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| **Tariff peaks[b]** | | | | | | | | |
| All goods | 9.2 | 9.5 | 9.3 | 9.0 | 8.9 | 8.8 | 9.3 | 9.7 |
| Agricultural | 33.4 | 37.6 | 37.4 | 37.5 | 36.5 | 34.6 | 36.3 | 36.0 |
| Non-agricultural | 3.1 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 | 2.3 | 2.5 |
| **Tariff escalation[c]** | | | | | | | | |
| All goods | 1.0 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.2 | -0.4 |
| Agricultural | 12.6 | 10.7 | 11.2 | 11.8 | 11.2 | 9.8 | 11.2 | 10.0 |
| Non-agricultural | 2.1 | 1.6 | 1.3 | 1.4 | 1.4 | 1.2 | 1.2 | 0.3 |

[a] Values shown are averages.
[b] Proportion of total tariff lines in the most favoured nation tariff schedule of a country, with tariffs above 15 per cent.
[c] Percentage point difference between the applied tariffs for finished (or fully processed) goods and the applied tariffs for raw materials. Prior to aggregating data over countries, the country average is calculated as a simple average of the Harmonized System six-digit level duty averages.
*Source*: UNCTAD Trade Analysis and Information System database, available at http://wits.worldbank.org/, International Trade Centre Market Access Map database, available at http://www.macmap.org/, and UNCTAD secretariat calculations.

14. Preferential tariff rate comparisons, as shown in table 4, reveal that regional trade agreements negotiated in 2007–2012 significantly reduced agricultural tariffs. However, the trade-weighted average tariff in high-income countries imposed on exports from least developed countries is much higher, at 5.9 per cent, than the simple average of 0.8 per cent, indicating that a significant portion of agricultural exports from least developed countries have not yet been fully liberalized, even on a preferential basis. As in the case of most favoured nation applied tariffs, the dispersion in simple average tariffs of high-income countries vis-à-vis agricultural imports from least developed countries and developing countries is higher than in other groups.

Table 4
**Preferential tariff rates on agricultural products**
(Percentage)

| | | | 2007 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|
| | | | Exporters | | | Exporters | | |
| | | | High-income countries | Least developed countries | Developing countries | High-income countries | Least developed countries | Developing countries |
| **Simple average** | *Importers* | *High-income countries* | 0.3 | 1.3 | 2.5 | 0.2 | 0.8 | 2.5 |
| | | *Least developed countries* | 9.9 | 0.7 | 7.4 | .. | 0.9 | 3.3 |
| | | *Developing countries* | 5.4 | 0.8 | 1.7 | 4.0 | 0.3 | 1.5 |
| **Trade-weighted average** | *Importers* | *High-income countries* | 0.1 | 18.3 | 3.4 | 0.1 | 5.9 | 2.9 |
| | | *Least developed countries* | 8.8 | 0.7 | 6.4 | .. | 0.3 | 5.2 |
| | | *Developing countries* | 8.6 | 0.6 | 1.7 | 3.2 | 0.1 | 1.5 |
| **Variability of simple averages (standard deviation)** | *Importers* | *High-income countries* | 2.3 | 32.5 | 29.0 | 2.2 | 24.4 | 15.1 |
| | | *Least developed countries* | 5.2 | 2.7 | 7.8 | .. | 3.8 | 6.2 |
| | | *Developing countries* | 19.5 | 5.0 | 5.3 | 16.7 | 3.9 | 5.3 |

*Source*: UNCTAD Trade Analysis and Information System database, available at http://wits.worldbank.org/, and UNCTAD secretariat calculations.

15. With respect to North–North regional trade agreement negotiations, it is significant that a key obstacle in the Trans-Pacific Partnership Agreement has been the issue of market access for sensitive agriculture products such as dairy products, beef, sugar and rice, while in the Transatlantic Trade and Investment Partnership negotiation difficulties have arisen from differing tariff offers, while tariff offers for agricultural products were reportedly deferred to a later stage.

## C. Non-tariff measures in the agricultural sector

16. Besides tariffs, agricultural products are subject to a variety of non-tariff measures which may not be meant for trade-restricting purposes but can affect trade costs upwards and may thus have an implicit trade-distorting effect. The most frequently applied non-tariff measures are technical barriers to trade, largely on processed products, as shown in figure 4(a) and sanitary and phytosanitary measures on raw or processed products, as shown in figure 4(b).

Figure 4 (a)
**Technical non-tariff measures, by economic sector**
(Percentage)

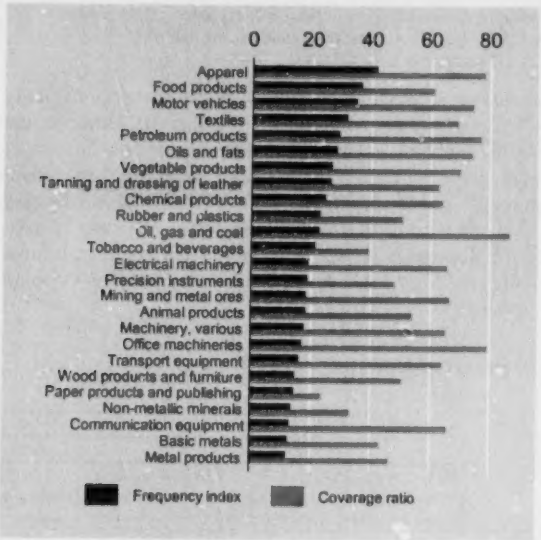
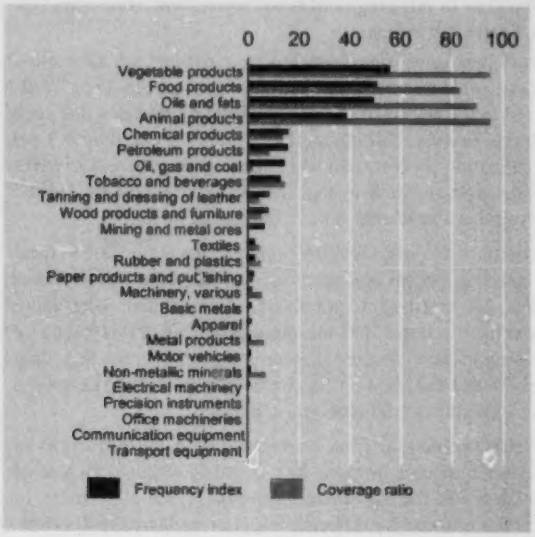


Figure 4 (b)
**Sanitary and phytosanitary non-tariff measures, by economic sector**
(Percentage)




*Source*: UNCTAD Trade Analysis and Information System database, available at http://wits.worldbank.org/.

17. Figures 4(a) and 4(b) present the frequency, in terms of the percentage of Harmonized System six-digit lines affected, and the coverage, in terms of the percentage of trade affected, of technical barriers to trade and sanitary and phytosanitary measures across various product groups. Technical barriers to trade are widely used in the form of conformity assessments or registration requirements against many agricultural products as well as for textiles and apparel. Over 60 per cent of trade flows of food products, oils and fats and vegetable products are subject to technical barriers. With regard to sanitary and phytosanitary measures, the frequency index is naturally concentrated in the agricultural sector, as such measures largely aim to protect human and animal health and food safety. Almost all (i.e. on average around 90 per cent) of trade in vegetable products, animal products, food products and oils and fats are subject to such measures.

18. Using the UNCTAD Trade Analysis and Information System database on non-tariff measures, Murina and Nicita (2014) quantitatively investigated the effect of the sanitary and phytosanitary measures applied by the European Union across 21 broad categories of agricultural imports and found that regulatory measures imposed relatively higher burdens on low-income countries than on higher-income countries.[6] Overall, the European Union sanitary and phytosanitary measures on agricultural exports may reduce exports from low-income countries by around US$3 billion, equivalent to about 14 per cent of the total agricultural exports from these countries to the European Union.

19. The study found that membership in deep trade agreements seems to facilitate low-income countries' reduction of the difficulties related to compliance with sanitary and phytosanitary measures. However, a recent UNCTAD study revealed that a developing

[6] M Murina and A Nicita, forthcoming, Trading with conditions: The effect of sanitary and phytosanitary measures on lower-income countries' exports, UNCTAD.

country may still face a significant challenge in market access even within a deep trade arrangement, as shown in box 1.

**Box 1. Non-tariff measures concerns in intraregional trade agreement trade: Mexico and the North American Free Trade Agreement**

Sanitary and phytosanitary measures significantly affect exports of agriculture from Mexico to the United States of America under the North American Free Trade Agreement.[7] Interviews conducted in the course of the UNCTAD study revealed that such measures effectively limited exports of milk, chicken and pork from Mexico due to, inter alia, difficulties in obtaining certification (notwithstanding considerable progress in terms of the eradication of pests and diseases in Mexico) and the lack of transparency in the formulation of sanitary and phytosanitary measures in the United States market.

With regard to technical barriers to trade, labelling requirements applicable to meat (including goat meat), poultry, ginseng, pecans and macadamia nuts in the United States market were the main concerns, as labelling requirements differed and were more stringent for foreign producers and procedures and the requirement on the labelling of genetically modified organisms was unclear. Mexico also articulated concerns regarding United States quality-control checks and certification requirements, which were perceived as leading to increasing costs for agricultural producers and exporters.

To overcome the barrier effect of non-tariff measures such as technical barriers to trade and sanitary and phytosanitary measures, Mexico has sought to promote the use of international standards and equivalence in the North American Free Trade Agreement. In practice, however, the Agreement has allowed for differing levels of standards to develop.

According to WTO documents containing concerns raised by Mexico with respect to the implementation of WTO agreements, prior trade disputes and trade policy review records, agricultural exports from Mexico to the United States have also been affected by anti-dumping measures (e.g. for fresh tomatoes), subsidies (including export subsidy components and food aid-related concerns for corn and milk), discriminatory taxes (e.g. on orange and grapefruit products and juices), import prohibitions (e.g. on shrimp) and rules of origin and changes that affect the concept of substantial transformation in the North American Free Trade Agreement.

*Source*: UNCTAD, 2014, *Mexico's agricultural development: Perspectives and outlook* (New York and Geneva, United Nations publication).

## D. Agricultural subsidies in the form of producer support

20. Another, and possibly the largest, distorting element in global agricultural trade is agricultural subsidies. In 2012 (the most recent year for which data is available), a total of US$486 billion was spent as agricultural subsidies in the top 21 food-producing countries globally, representing almost 80 per cent of global agricultural value added. Organization for Economic Cooperation and Development (OECD) countries alone spent US$258.6 billion in subsidies to support farming in their respective countries.[8] Public support to agricultural producers made up around 19 per cent of all OECD farming revenues in 2012, as shown in table 5. Much of the agricultural exports from OECD countries consist of goods that benefit from producer subsidies.

[7] United Nations Industrial Development Organization, 2010, *Meeting Standards, Winning Markets: Trade Standards Compliance 2010* (Vienna, United Nations publication).

[8] OECD iLibrary, agricultural support and producer protection estimates, available at http://www.oecd-ilibrary.org/agriculture-and-food/agricultural-policy/indicator-group/english_22d89f8c-en (accessed 1 July 2014).

Table 5
**Producer support estimates as percentage of gross farm receipts**

| | *2007* | *2008* | *2009* | *2010* | *2011* | *2012* | *Average change (2007=100)* |
|---|---|---|---|---|---|---|---|
| **OECD** | | | | | | | |
| **Total** | **20.8** | **20.7** | **21.9** | **19.2** | **18.3** | **18.6** | **94.9** |
| Australia | 4.8 | 4.4 | 3.1 | 2.8 | 2.9 | 2.7 | 66.2 |
| Canada | 16.4 | 13.2 | 17.5 | 16.7 | 15.1 | 14.3 | 93.6 |
| Chile | 3.4 | 2.6 | 4.7 | 2.6 | 3.0 | 3.3 | 95.3 |
| Iceland | 55.4 | 50.6 | 49.2 | 44.3 | 44.3 | 47.3 | 85.1 |
| Israel | 1.8 | 16.3 | 13.1 | 13.2 | 12.8 | 11.4 | 742.2 |
| Japan | 46.7 | 48.2 | 48.9 | 54.9 | 51.4 | 55.9 | 111.00 |
| Mexico | 13.0 | 12.3 | 14.0 | 12.4 | 12.8 | 12.3 | 98.1 |
| New Zealand | 0.7 | 0.6 | 0.5 | 0.7 | 1.0 | 0.8 | 102.9 |
| Norway | 54.6 | 59.4 | 61.1 | 60.4 | 59.1 | 63.1 | 111.00 |
| Republic of Korea | 57.4 | 45.5 | 50.9 | 40.1 | 52.4 | 53.8 | 84.6 |
| Switzerland | 53.0 | 56.5 | 60.8 | 52.4 | 54.6 | 56.6 | 106.00 |
| Turkey | 26.2 | 26.2 | 28.4 | 26.3 | 22.3 | 22.4 | 95.9 |
| United States | 10.0 | 8.8 | 10.6 | 7.8 | 7.7 | 7.1 | 84 |
| European Union (27 member countries) | 22.8 | 23.5 | 23.3 | 19.8 | 18.0 | 19.0 | 90.9 |
| **Non-OECD** | | | | | | | |
| Brazil | 4.7 | 3.7 | 6.5 | 4.5 | 4.8 | 4.6 | 102.5 |
| China | 9.9 | 2.9 | 11.5 | 15.3 | 12.9 | 16.8 | 120.00 |
| Indonesia | 14.9 | -10.7 | 5.9 | 21.0 | 14.5 | 20.9 | 69.3 |
| Kazakhstan | 5.0 | 3.9 | 13.8 | 9.4 | 10.8 | 14.6 | 210.00 |
| Russian Federation | 15.1 | 20.5 | 20.7 | 21.5 | 15.1 | 13.5 | 120.9 |
| South Africa | 5.1 | 3.6 | 4.1 | 1.7 | 2.7 | 3.2 | 60.00 |
| Ukraine | 3.3 | 3.0 | 7.9 | 6.7 | -4.4 | 1.3 | 87.9 |

*Source*: OECD iLibrary, agricultural support and producer protection estimates, available at http://www.oecd-ilibrary.org/agriculture-and-food/agricultural-policy/indicator-group/english_22d89f8c-en (accessed 1 July 2014), and UNCTAD secretariat calculations.

21. The resilience of agricultural subsidies at high levels in many countries is not unrelated to the stalemate in the WTO Doha Round of negotiations to date (except with regard to trade facilitation), including with regard to the next stage of reforming agricultural trade, as foreseen in article 20 of the Agreement on Agriculture. In today's international trading system, only the WTO rules may provide a binding commitment to reduce trade-distorting agricultural subsidies. Though the number of regional trade agreements and bilateral free trade agreements is rapidly increasing, none of them, including megaregional agreements in negotiation, such as the Trans-Pacific Partnership Agreement and the Transatlantic Trade and Investment Partnership, addresses and provides enforceable rules aimed at controlling and phasing out the use of agricultural subsidies.

## E. Agriculture, trade and poverty reduction

22. Out of the total 1.3 billion agricultural workers globally, 1.28 billion – or 98 per cent – live in developing countries. On average, around 50 per cent of the working population in developing countries is engaged in agricultural production. The ratio is much less in middle-income developing countries, such as those in Latin America, at 15 per cent, but is high in low-income countries, such as those in sub Saharan Africa, at over 60 per cent,

followed by those in South Asia, at 51 per cent. Altogether, sub-Saharan Africa and South Asia represent half a billion workers employed and/or engaged in the sector.[9]

23. Closely linked to the high ratio of poverty in the agricultural sector in developing countries, a concentration of socially and economically vulnerable groups is also seen in this sector, as shown in table 6.

Table 6
**Poverty incidence and depth in low-income and lower middle-income countries**
(Percentage)

| | *Poverty headcount ratio* | *Poverty gap* |
|---|---|---|
| **Low-income countries** | | |
| Rural | 53 | 20 |
| Urban | 29 | 10 |
| **Total** | **46** | **17** |
| **Lower middle-income countries** | | |
| Rural | 48 | 15 |
| Urban | 27 | 8 |
| **Total** | **40** | **12** |
| **Sub-Saharan Africa** | | |
| Rural | 57 | 22 |
| Urban | 29 | 11 |
| **Total** | **47** | **20** |
| **South Asia** | | |
| Rural | 27 | 6 |
| Urban | 15 | 3 |
| **Total** | **25** | **5** |

*Note*: Country averages are based on the latest available data for 2008–2012. The poverty headcount ratio corresponds to the percentage of the population (total, rural or urban) living on less than $1.25 a day at 2005 international prices. The poverty gap is the mean shortfall from the poverty line (counting the non-poor as having zero shortfalls), expressed as a percentage of the poverty line.

*Source*: World Bank World Development Indicators database, available at http://data.worldbank.org/data-catalog/world-development-indicators.

24. Figure 5(a) and figure 5(b) present the sectoral composition of employment by gender in sub-Saharan Africa and South Asia, respectively. In both regions, agriculture remains the largest sector of employment, compared to the services sector and the industrial sector. In sub-Saharan Africa, the agricultural sector absorbed about 62 per cent of men and women workers in 2012. In South Asia, while the overall share of workers in the agricultural sector is around 50 per cent, there is a considerable difference between men and women; women's employment in the agricultural sector represents around 70 per cent of the total, compared to 15 per cent in both the services and industrial sectors. In addition, the agricultural sector has the highest incidences of early entry into the workforce, at ages as early as five and seven years. Around 60 per cent of all child labourers – about 129 million girls and boys – work in agriculture.[10]

[9] International Labour Office Key Indicators of the Labour Market database, eighth edition, available at http://www.ilo.org/empelm/what/WCMS_114240/lang--en/index.htm (accessed 1 July 2014).

[10] Food and Agriculture Organization of the United Nations (FAO), 2013, *FAO Statistical Yearbook 2013: World Food and Agriculture* (Rome, United Nations publication).

Figure 5 (a)

**Sectoral composition by gender in sub-Saharan Africa**

(Percentage)

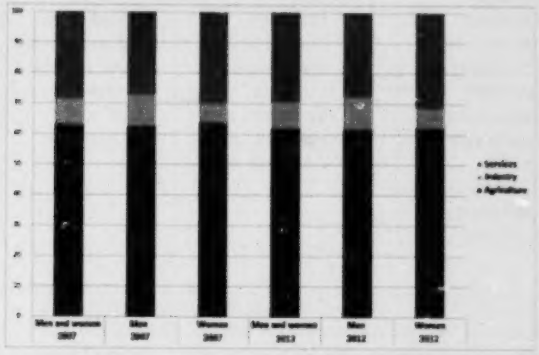
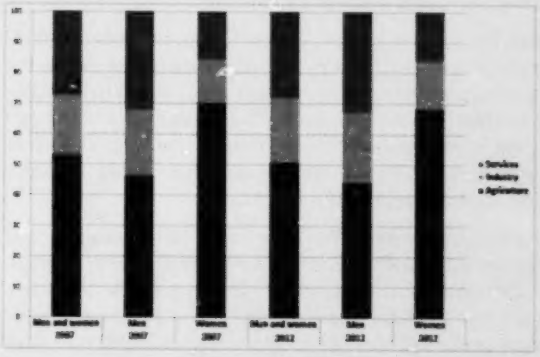


Figure 5 (b)

**Sectoral composition by gender in South Asia**

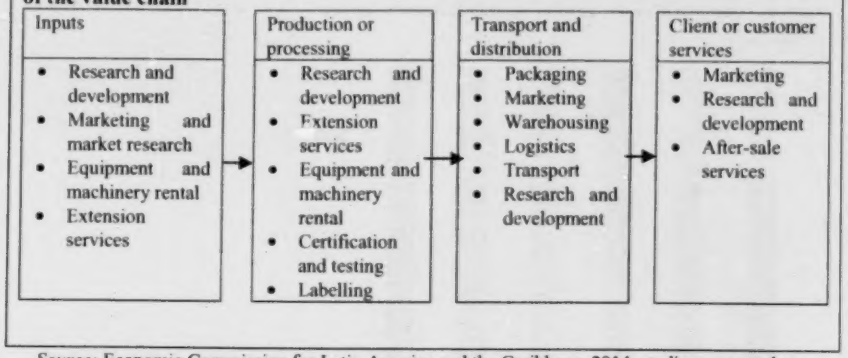
(Percentage)



*Source*: International Labour Office Key Indicators of the Labour Market database, eighth edition, available at http://www.ilo.org/empelm/what/WCMS_114240/lang--en/index.htm (accessed 1 July 2014).

25. Increasing agricultural employment does not have to be seen as a move against the structural transformation of developing countries' economies, since an increase in agricultural jobs via the improvement of agricultural viability in the post-2015 period would come from absorbing the urban poor, most of whom are not formally employed in the sectors that generate higher added value than the agricultural sector. An increase in agricultural viability can also enhance job creation in the services and industrial sectors that are closely linked to agriculture throughout different stages of the value chain, such as extension services and the rental of equipment during the production stage and packaging, warehousing and marketing during the distribution stage, as shown in box 2.

**Box 2. Specialized services associated with agricultural production in different stages of the value chain**




*Source:* Economic Commission for Latin America and the Caribbean, 2014, studies presented at the Third Conference of the Latin American Network for Research on Services – Innovation and internationalization in services: New sources of economic development in Latin America, Mexico City, 13 and 14 March, and N Oddone and RP Pérez, 2014, El mejoramiento de las cadenas de valor a través de servicios profesionales y de soporte, International Centre for Trade and Sustainable Development, 6 May, available at http://www.ictsd.org/bridges-news/puentes/news/el-mejoramiento-de-las-cadenas-de-valor-a-trav%C3%A9s-de-servicios (accessed 1 July 2014).

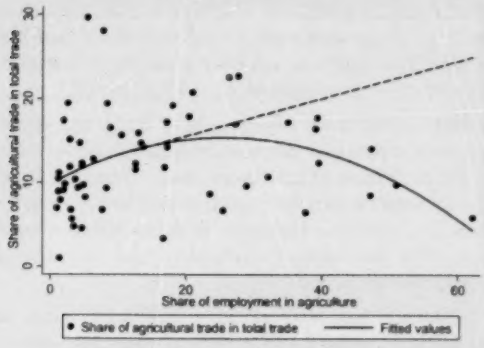
26. The unavailability of agriculture-related services may inhibit overcoming the trade barrier effects of technical barriers to trade and sanitary and phytosanitary measures. For example, the Government of Jamaica acknowledged in its most recent WTO trade policy review that the limited ability to meet international quality standards was a significant challenge for exports, in particular in the agro-processing subsector, in spite of various initiatives undertaken by the Government to improve the association of quality assurance frameworks with agricultural production and agro-processing industries.[11]

27. Additional services that are cross-cutting to the value chain include training and education, financial, legal, telecommunications, security, accounting, quality control, messaging, real estate, energy and mechanical maintenance. Findings of the Economic Commission for Latin America and the Caribbean research referred to in box 2 suggest that specialized or professional services can contribute to technological upgrading at each stage of the value chain.

28. Figure 6 plots the share of agricultural employment in total employment against the share of agricultural trade in total trade. The two ratios reveal an inverted-U-shaped relationship, i.e. the share of agricultural exports rises as the share of agricultural employment increases only up to a certain level, around 20 per cent. The share of agricultural trade tends to be low in countries where agriculture absorbs over 50 per cent of total employment. These are largely a group of low-income countries that may be facing, in addition to low agricultural productivity, difficulties in physically reaching international markets. The gap between the hypothetical linear relationship representation and the observed one may be seen as the trade gap, to be filled through appropriate policies, assuming that farmers may gain from increasing the share of traded production.

[11] UNCTAD, 2013, *Trade Policy Framework: Jamaica* (New York and Geneva, United Nations publication).

Figure 6
**Share of agricultural trade in total trade versus share of employment in agriculture**
(Percentage)




*Source*: World Bank World Development Indicators database, available at http://data.worldbank.org/data-catalog/world-development-indicators, and UNCTAD secretariat calculations.

29. Competition law and policy enforcement in the agricultural sector aims to protect both consumers and producers of agricultural goods. Competition policy would ensure, on the one hand, that producers do not collude to the detriment of consumers and, on the other hand, that producers do not suffer due to anticompetitive practices by agents in upstream and downstream markets.

30. The agricultural sector is prone to anticompetitive practices in many developing countries. This is particularly seen with regard to crucial inputs such as fertilizers, agrochemicals and seeds distribution. Furthermore, the rapid consolidation of supermarket chains on a global scale has been a growing trend, linked to which there is an increasing concentration of the distribution and retail networks of agricultural products and dominance by major multinational retailers in both international and domestic agricultural markets.

31. One challenge facing competition authorities in developing countries is that many multinational companies whose operations affect their markets are from outside their jurisdictions. An effort at regional levels may address this problem of extraterritoriality. Two competition cases from the European Commission and France, regarding Nestlé and Italgel, and Cémoi and the Société européenne des assortiments de chocolat, respectively, show that the regional application of competition law in the European Union allows for the analysis of the effects of the former merger within the European Union common market. Assessment of the effects of the merger on the cocoa-producing countries is, however, beyond the scope of European Union competition law due to their extraterritoriality.[12]

32. One way to handle such cases is through the application of regional competition rules. For example, the Common Market for Eastern and Southern Africa has a regional competition authority, the Competition Commission, which is currently engaged in evaluating mergers affecting more than one country within the common market.[13]

33. Another vital aspect of agriculture is its gender dimension. The rate of women's participation in the agricultural sector is particularly significant in low-income countries, where women producers are usually small farmers or work as unpaid labour on family farms. In many agriculture-based economies, women benefit from international trade, often

[12] UNCTAD, 2008, Cocoa study: Industry structures and competition, UNCTAD/DITC/COM/2008/1.
[13] See http://www.comesacompetition.org.

through wage employment opportunities on estate farms or in packing houses. Women often work in subsistence agriculture and produce staples for their own consumption.

34. Generally, women's productivity tends to be lower than that of men. According to FAO, if women had the same level of access to productive resources as men, they could increase the yields of their farms by 20 to 30 per cent, raising total agricultural output in developing countries by 2.5 to 4 per cent. This would in turn have a significant impact on food security, reducing the overall number of hungry people by 12 to 17 per cent.[14]

35. In examining the gender-related ramifications of agricultural trade and related policies, it is useful to distinguish between export cash crops and the subsistence-oriented staple-food segment. With regard to the production of cash crops, trade liberalization can benefit women farmers by providing expanded markets for export, as well as opportunities to integrate into global supply chains as producers. However, in doing business small farmers, many of whom are women, often face obstacles related to land tenure, poor infrastructure and limited access to productive resources.

36. Non-traditional agro-export production has emerged as a significant source of employment for rural women, particularly in some Latin American countries, such as Brazil, Chile, Colombia, Ecuador, Mexico and Peru, and sub-Saharan countries, such as Ethiopia, Kenya, South Africa, Uganda and Zambia. However, women tend to be concentrated in certain specific segments of the production line, such as grading and packing, and rarely receive opportunities for training and upgrading, as shown in the case study in box 3. Moreover, women are generally seen as secondary workers and as relatively easier to lay off due to their lower bargaining power.[15]

**Box 3. The cut flowers industry in Kenya**

Horticulture is among the fastest-growing sectors of the economy in Kenya. This performance is largely attributed to the export of cut flowers, mainly to European markets. On a global level, Kenya is the third largest flower exporter by value and volume. Exports rose from $100 million in 2002 to more than $300 million in 2007, and the cut-flower industry of Kenya represents a valuable and well-established contributor to the economy of the country.

Over 65 per cent of the total employment in the cut-flower industry is on a temporary, seasonal or casual basis and 75 per cent of the workers are women. The development of the cut-flower sector has created broad opportunities for women's employment. However, the benefits to women have been greatly diminished by the low wages paid in the sector. Particularly damaging for women is their continued status as temporary workers and the use of rolling contracts as a means of avoiding the additional costs associated with permanent employment.

The situation has, however, recently improved and some significant results have been achieved, namely the following: women workers are guaranteed maternity leave of three months (while men are granted paternity leave of 14 days); men and women benefit from, on average, 23 days of annual leave; only men interact with pesticides; weekly hours are capped at 46 hours and overtime is limited and paid at an increased rate; personal protective equipment is required and provided freely; gender committees have been instituted that educate workers on sexual abuse and provide women workers with a complaints procedure.

[14] FAO, 2011, *The State of Food and Agriculture 2010–2011: Women in Agriculture – Closing the Gender Gap for Development* (Rome, United Nations publication).

[15] S Barrientos, N Kabeer and N Hossain, 2004, The gender dimensions of the globalization of production, Policy Integration Department, World Commission on the Social Dimension of Globalization, Working Paper No. 17, International Labour Office.

Finally, ethical standards and labels adopted by flower farms to respond to consumer concerns in Europe, such as the Fairtrade label, GlobalGAP (Good Agricultural Practice), Multi-Packaging Solutions and the Kenya Flower Council, are regarded as having played a significant role in improving the social, economic and environmental situation of workers in the sector, especially women.

*Source*: TD/B/C.I/EM.2/3 and B Leipold and F Morgante, 2013, The impact of the flower industry on Kenya's sustainable development, International Public Policy Review, 7(2).

37. Recent cases suggest that women may gain new opportunities in cash crop production through contract farming and other outgrower schemes. Under these contractual arrangements, the farmer agrees to supply a specified quantity and quality of an agricultural product within an agreed time frame, and the buyer commits to purchase the product and may also commit to supplying inputs or providing extension services or advancing finance. Under such schemes, buyers may structure their procurement schemes to enable and encourage women's participation with a view to generating sustainability claims for their products. Contract farming may, however, involve risks linked to the fact that buyers often prefer to source from large rather than small farms in order to reduce transaction and supervision costs. This may squeeze the cash-earning capacity of marginal and vulnerable rural smallholders, many of whom are women. For example, some studies show that, for cash crop production during the 1990s, women farmers obtained only 3 per cent of contracts in Guatemala and fewer than 10 per cent of contracts in Kenya.[16] Yet there are also a number of successful cases where women can be seen to have benefited from new opportunities emerging from enhanced trade openness, for example in shea production in Burkina Faso and non-traditional agro-export in Uganda.

38. With regard to the production of staple foods, trade liberalization can erode women's already meagre earnings in the sector, with cheap imports reducing domestic prices for agricultural produce. For example, the liberalization of the rice market in the Philippines between 2001 and 2005 led to a reduction in the domestic price of rice and reduced incomes for both men and women small farmers.[17]

39. Enhancing regional trade might particularly benefit women as economic agents as neighbouring markets are likely to be more familiar and easier to deal with.[18] In Southern and West Africa, for instance, women constitute the largest proportion (representing between 70 per cent and 80 per cent) of informal cross-border traders. Such regional trade contributes to food security, poverty reduction, women's empowerment and enterprise development. However, none of the existing regional trade agreements specifically address gender-specific obstacles in cross-border trade, which range from women's limited access to information on cross-border trade regulations or procedures, to the higher risk that they face than men of being victims of abuse, violence and bribery.[19]

40. Regional trade agreements may serve as a platform to ensure that countries cooperate in implementing policies that strengthen the role of trade in supporting

[16] N Kabeer, 2012, Women's economic empowerment and inclusive growth: labour markets and enterprise development, Supporting Inclusive Growth Working Paper 2012/1, Department for International Development and International Development Research Centre.

[17] TD/B/C.I/EM.2/3.

[18] M Carr, MA Chen and J Tate, 2000, Globalization and home-based workers, *Feminist Economics*, 6(3) and Z Randriamaro, 2005, Gender and trade: Overview report, Bridge Development – Gender, Institute of Development Studies.

[19] TD/B/C.I./EM.2/2/Rev.1.

environmental sustainability. Experience to date shows that this is not yet the case.[20] Although some agreements affirm the need for trade to support environmental protection in their preambles and as best-endeavour articles, very few of the over 300 such agreements currently in force explicitly address environmental concerns with legally binding provisions. Among those that do so are agreements that require environmental impact assessments or sustainability impact assessments to be undertaken to examine the ex-ante and ex-post impacts of trade on the environment and sustainable development, with the aim of ensuring net positive impacts from an agreement under negotiation during its implementation. However, the quality of these assessments and the responsiveness of negotiators to their results remain variable, as shown in the case study in box 4.

**Box 4. Regional trade agreements and harmonization in biofuels standards**

Regional trade agreements have important consequences on the linkage between agriculture and renewable energy. One example may be seen in the case of biofuels, which are made primarily out of agricultural feedstock such as sugar cane, soya beans and palm kernels. The production and use of biofuels increased significantly in 2006–2013. Ethanol production increased from 31 billion litres in 2006 to 84 billion litres in 2012, while biodiesel production increased from 7 billion litres to 21 billion litres in the same period. In parallel with the physical growth of this market, the upward development of biofuels trade was met with increasingly stringent sustainability regulations in this sector, as biofuels were perceived to carry risks of feedstock competition between food and fuel, with sensitive impacts, especially in developing countries. Key players in sustainability discussions included Brazil, the United States and the European Union, all major producers and consumers of biofuels. While some level of cooperation was achieved on technical standards of fuel norms, no consensus emerged on sustainability rules for biofuels.

The ongoing negotiations towards a Transatlantic Trade and Investment Partnership between the United States and the European Union could create renewed momentum in the renewable energy trade and give new impetus to discussions on how to craft mutual recognition systems for the different biofuels sustainability rules in place on both sides of the Atlantic Ocean. This has the potential for cost reductions and significant improvement in regulatory uncertainty, which has been a problem for existing and prospective biofuels producers, especially in developing countries.

*Source*: J Earley, 2009, United States trade policies on biofuels and sustainable development, Issue Paper No. 18, International Centre for Trade and Sustainable Development, available at http://www.ictsd.org/themes/agriculture/research (accessed 1 July 2014), and Brazil, United States and European Union Tripartite Task Force, 2007, Internationally compatible biofuel standards, White Paper, European Commission, available at http://ec.europa.eu/energy/renewables/biofuels/standards_en.htm (accessed 1 July 2014).

## II. Inclusive and sustainable agricultural trade in the post-2015 era: Issues for discussion

41. As discussed above, improving economic viability through trade in the agricultural sector has a direct and positive impact not only on eliminating absolute poverty, particularly in lower-income countries, but also on creating ground for inclusive and sustainable economic growth in the period ahead, including in the United Nations post-2015 development agenda and sustainable development goals, and beyond.

[20] P Reynaud, 2013, Sustainable development and regional trade agreements: Toward better practices in impact assessments, *McGill International Journal of Sustainable Development Law and Policy*, 8(2).

42. A special focus on agriculture in the post-2015 agenda may energize efforts to eliminate absolute poverty after 2015. In this respect, this document highlights seven issues that should be addressed during the formulation of the post-2015 development agenda and in the WTO Doha Round of negotiations, with a view to creating a coherent international framework for enhancing economically viable agricultural trade for achieving inclusive and sustainable economic growth and food security.

43. The first issue is the need to reduce trade distortion in agricultural trade, especially by abolishing and reducing subsidies provided to large commercial agricultural producers in high-income countries, which distort global production and consumption patterns in a non-sustainable way by creating a hyperintensive production system.[21] Such subsidies can be counteractive to measures targeting the reduction of rural poverty in lower-income countries, particularly when subsidies in OECD countries are provided for the production of staple crops such as wheat, maize and rice. Reducing the agricultural viability of low-income countries via agricultural subsidies can eventually exacerbate food insecurity risks in the future, especially when around 60 per cent more agricultural production is estimated to be necessary to the world in 2050. Though in the short term consumers in net-food-importing countries may suffer higher prices as a result of the abolition and/or substantial reduction of domestic and export agricultural subsidies, in the longer term, while competition is levelled, domestic producers will become more competitive and be able to better sustain food security in their own countries.

44. The second issue is the need to reduce trade costs in agricultural trade, particularly in a regional set-up. Trade costs in general, and in the agricultural sector in particular, fall with an increase in supply capacity in the services sector, such as in transport and logistics, warehousing, quality control, marketing and retailing. Such services may already exist in some well-established global value chains involving cash crops, due to investment by, and possibly pressure from, multilateral companies, but are close to non-existent in regional trade involving lower-income countries.

45. The third issue involves improving equitable competition in the agricultural sector. In agricultural markets at international, regional and domestic levels, the market structure is often highly concentrated in upstream and downstream markets, which cannot be changed through competition law enforcement only. Most competition laws contain provisions on the abuse of market power by producers and suppliers of goods and services, but are usually not applied to situations where producers have no bargaining power vis-à-vis the buyers.[22]

46. The fourth issue is increasing the participation of marginalized and/or vulnerable groups in agricultural production and trade and making this participation economically viable. Rural women's likelihood of integration in international trade and global value chains depends on the policy measures taken by Governments to redress gender inequalities and constraints, provide incentives to source from women producers and ensure that women producers obtain fair deals from buyers, for instance through public–private partnerships.

47. The fifth issue is the need to look at improving agricultural market access conditions in a new light. Notwithstanding the importance of providing duty-free and quota-free market access to all exports from least developed countries, and possibly from other vulnerable economies, the value of preferential margins provided to them continues to erode as tariffs are fast-reduced, if not eliminated, under numerous regional trade

[21] U Hoffmann, 2011, Some reflections on climate change, green growth illusions and development space, Discussion Paper No. 205, UNCTAD.

[22] UNCTAD, 2014, *Mexico's agricultural development: Perspectives and outlook* (New York and Geneva, United Nations publication).

agreements and bilateral free trade agreements. For duty-free and quota-free market access to truly benefit least developed countries, it should come with technical support and investment in shoring up their agricultural supply capacity, particularly in non-traditional non-cash-crop sectors, which will also reduce the current level of hindrances imposed by non-tariff measures, such as technical barriers to trade and sanitary and phytosanitary measures, in importing markets.

48. Sixth, with regard to regional trade agreements, especially two megaregional agreements currently under negotiation, the Trans-Pacific Partnership Agreement and Transatlantic Trade and Investment Partnership, it does not appear, at least for the time being, that these potential agreements are likely to generate a sufficiently supportive economic environment for developing countries to make the most of agricultural trade to achieve their development goals, including under the post-2015 development framework. It is important to emphasize, in particular, that none of them addresses the crucial issue of agricultural subsidies. This alone seems to favour the status quo rather than a breakthrough to twenty-first century trade agreements, establishing a type of "golden standard". This also underlines the importance of the multilateral trading system and of concluding the Doha Round with meaningful, balanced and development-oriented outcomes, which should include results on agricultural trade.

49. In relation to market access improvement, the seventh issue, which deserves a new approach in the post-2015 development agenda, is the concept of products of particular interest to developing countries. The preamble to the Agreement on Agriculture states: "developed country members would take fully into account the particular needs and conditions of developing country members by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to these members, including the fullest liberalization of trade in tropical agricultural products." A conventional interpretation of particular interest to developing countries covers only their traditional exports. Today, such products may include product groups that may be different across countries. This would create a greater impact upon agricultural earning capacity and job creation.

50. The concurrence of multilateral negotiations – the post-2015 development agenda and the WTO Doha Round of negotiations – presents an excellent opportunity to establish global policy coherence that will firmly connect international trade to inclusive and sustainable growth. Treating trade separately in the post-2015 development agenda, exclusively as a matter for the multilateral trading system and multilateral trade negotiations, would not only risk jeopardizing such coherence at the global level, but also undermine the enabling role of international trade in the post-2015 development framework.

United Nations TD/B/61/3

United Nations Conference on Trade and Development

Distr.: General
7 July 2014

Original: English

**Trade and Development Board**
**Sixty first session**
Geneva, 15–26 September 2014
Item 11(b) of the provisional agenda
Report on UNCTAD assistance to the Palestinian people

# Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory*

**Note by the UNCTAD secretariat****

*Executive summary*

Under the impact of yet another year of prolonged occupation, 2013 proved to be one more year of lost Palestinian development. The economy continued to lose ground, and the slowdown that was had been witnessed in 2012 worsened in 2013. As a result, real per capita income in the Occupied Palestinian Territory declined, and unemployment, poverty and food insecurity worsened. Palestinian women continued to bear the brunt of occupation, which has condemned them to one of the lowest rates of labour market participation and the highest unemployment rate in the world. The Israeli occupation of Area C deprives the economy of the Occupied Palestinian Territory of much of its natural resource base and costs at the very least one third of its gross domestic product (GDP) every year. Despite difficult field conditions and limited resources, UNCTAD continues to respond to the complex needs of the Palestinian economy. However, securing extrabudgetary resources remains critical for enhancing the support of the secretariat to the Palestinian people.

* The designations employed, maps and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the United Nations Secretariat concerning the legal status of any country, territory, city or area, or of its authorities, or concerning the delineation of its frontiers or boundaries. In accordance with the relevant resolutions and decisions of the General Assembly and Security Council, references to the Occupied Palestinian Territory or territories pertain to the Gaza Strip and the West Bank, including East Jerusalem. Use of the term "Palestine" refers to the Palestine Liberation Organization, which established the Palestinian National Authority. References to the "State of Palestine" are consistent with the vision expressed in Security Council resolution 1397 (2002) and General Assembly resolution 67/19 (2012).

** This report should not be quoted by the press before 3 September 2014.

GE.14-07689 (E)

*1407689*

Please recycle

# I. Economic stagnation under occupation

1. Although in 2013 donor aid recovered somewhat from its decline the previous year, it was not sufficient to compensate for the severe effects of the Israeli restrictions on the movement of Palestinian people and goods, pervasive uncertainty, persistent fiscal crisis and gloomy political horizons. Economic growth in the Occupied Palestinian Territory declined from an average of about 11 per cent in 2010 and 2011 to a mere 1.5 per cent in 2013, the lowest rate of growth since 2006, well below that of population growth.

## A. Weak growth, fragile fiscal position and mass unemployment

2. In response to the recognition of Palestine as a non-member observer State in November 2012 by the United Nations General Assembly, Israel applied its traditional economic restrictions and withheld the transfer of clearance revenue to the Palestinian National Authority, further constraining its already thin fiscal space and curtailing its ability to pay its employees and suppliers. As a result of this and other long-standing constraints, real GDP growth was particularly weak in the West Bank. It fell from 5.6 per cent in 2012 to just 0.4 per cent in 2013. Growth in the West Bank contracted by 0.6 per cent in early 2013, mainly as a result of the economic disruption caused by Israel's withholding of clearance revenue, but it picked up again with the resumption of clearance revenue transfer.

3. In Gaza, despite the prolonged Israeli economic siege, growth was strong in the first half of 2013, mainly driven by the implementation of donor-funded projects. However, performance was reversed later in the year mostly due to the scarcity of inputs caused by the crackdown on the tunnel economy on the border with Egypt. Consequently, Gaza's growth fell from an average of 26 per cent in 2010 and 2011, to 4.5 per cent in 2013. Real GDP per capita in Gaza in 2013 was 20 per cent below its level in 1994 (Office of the United Nations Special Coordinator for the Middle East Peace Process, 2013).

4. The economic prospects of the Occupied Palestinian Territory depend on political trends, aid flows, the blockade of Gaza and Israeli restrictions on movement and access, as well as access to Area C. If the aid levels and political situation that prevailed in early 2014 persist, growth may not increase more than one point above its level of 2013, to hover around 2.5 per cent in 2014. This will not be sufficient to absorb the new labour market entrants; nor will it be high enough to keep up with population growth. It will therefore produce higher unemployment and lower per capita income.

5. Palestinian official data indicate that the overall rate of unemployment in the Occupied Palestinian Territory remained high in 2013 at 27 per cent, in Gaza at 36 per cent and the West Bank at 22 per cent. The unemployment crisis is particularly severe in Gaza due to the persistence of the Israeli blockade and the shutdown of the tunnel economy, which virtually brought the construction and transportation sectors to a halt.

6. In 2013 the Palestinian labour force expanded further by 3.7 per cent, but the rate of labour force participation remained unchanged at 43.6 per cent. This rate is very low, even by regional standards; it reflects the fact that many working-age adults have been discouraged from participation by the dearth of decent work opportunities. The low rate also reflects the weak participation of women, which stood at 17 per cent in 2013, compared with 69 per cent for men (table 2). With 70 per cent of the Palestinian population under 30 years of age, it is alarming that the unemployment rate is 41 per cent among Palestinian youth in the 15–24 years age group. The youth unemployment problem is even worse among women, with two out of three young women out of work.

7. The policy space available for the Palestinian National Authority to address the employment crisis is shrinking, and the ongoing Palestinian fiscal crisis implies that the

public sector, which currently employs 23 per cent of the workforce, cannot be relied on to absorb the growing work force. It is estimated that about 4.5 per cent of annual GDP growth is required just to absorb new labour market entrants. Therefore, short of a wide-ranging lifting of Israeli restrictions on the Palestinian economy and trade, and enabling greater access to economic and natural resources, the Palestinian private sector will remain unable to create jobs, and the severe unemployment crisis will worsen. This will in turn exert upward pressure on poverty and food-insecurity levels. Lifting the Israeli restrictions is a prerequisite for overcoming the unemployment crisis because it will not only enable greater investment in productive capacity, but it will make it possible to correct the distortion in investment patterns, which currently favours services at the expense of employment-intensive agriculture and manufacturing.

8. It is erroneous and misleading to view the fiscal crisis as the reason for the weakness of the economy of the Occupied Palestinian Territory. Fiscal weakness is the result, not the cause, of an economic weakness that is rooted in occupation. Long-term sustainable development cannot be achieved without addressing the fundamental weaknesses and structural distortions that were fuelled by decades of occupation. This structural deformation was driven by diverting investment towards the non-tradable goods sector, mainly services and residential construction, at the expense of agriculture and manufacturing, which were relatively employment intensive.

9. Consequently, the services sector accounts for two thirds of GDP, while the share of the agricultural sector has declined by 72 per cent since 1994, standing today at just around 4–5 per cent of GDP. The contribution of the light manufacturing sector to is also negligible, accounting for just 4 per cent of GDP and 4 per cent employment, despite the proximity to large markets, favourable bilateral trade agreements and a relatively well-educated labour force. The concentration of economic activity in the services and construction sectors is unhealthy because of the limited room for further expansion, as they are less dynamic than the agricultural and manufacturing sectors and are characterized by limited capacity for job creation and technological innovation.

10. Table 1 indicates that the 2013 trade deficit remained high at 41 per cent of GDP, even though it was lower than in 2012. This decline is caused by a slightly higher export level and stagnant imports, reflecting weak income growth. Although exports rose by 24 per cent, they cover less than one third of the import bill.

11. Prior to the blockade of Gaza, the local economy in the Gaza Strip was largely export oriented. However, exports to Israel have been banned, and trade with the West Bank has been severely restricted since 2007. These measures have wiped out the exports of Gaza almost completely. In 2013, only 182 truckloads of agricultural produce were exported, a substantial drop from the over 15,000 trucks recorded in 2000 (International Labour Office (ILO), 2014). Gaza's low value added exports lack competitiveness for reasons related to the ongoing blockade, lack of access to inputs (some of which are considered by Israel as "dual-use"), destruction of infrastructure and high production and transportation costs.

12. Despite sluggish GDP growth, declining per capita income and below-expectation aid, the Palestinian National Authority remained committed to fiscal reforms, pursuing fiscal sustainability, controlling the budget deficit and mitigating the structural dependence on aid. Moreover, the Palestinian National Authority was successful in enhancing revenue performance, while controlling expenditure, and thereby reduced the recurrent budget deficit on a commitment basis from 30 per cent of GDP in 2009 to 14.5 per cent in 2012 and 11.7 per cent in 2013.

Table 1
**Economy of the Occupied Palestinian Territory: Key indicators**

| | *1995* | *1999* | *2002* | *2006* | *2010* | *2011* | *2012[a]* | *2013[a]* |
|---|---|---|---|---|---|---|---|---|
| **Macroeconomic performance[a]** | | | | | | | | |
| Real gross domestic product growth (percentage) | 6.0 | 8.8 | (13.3) | (5.2) | 9.3 | 12.2 | 5.9 | 1.5 |
| Gross domestic product, nominal (million dollars) | 3 220 | 4 179 | 3 433 | 4 619 | 8 331 | 9 775 | 10 255 | 10 750 |
| Gross national income, nominal (million dollars) | 3 699 | 4 932 | 3 656 | 5 047 | 8 930 | 10 484 | 10 973 | 11 626 |
| Gross national disposable income (million dollars) | 4 099 | 5 306 | 4 708 | 6 323 | 10 921 | 11 730 | 12 090 | 13 500 |
| Gross domestic product per capita (dollars) | 1 400 | 1 493 | 1 125 | 1 363 | 2 185 | 2 489 | 2 534 | 2 578 |
| Gross national income per capita (dollars) | 1 608 | 1 763 | 1 199 | 1 489 | 2 342 | 2 670 | 2 711 | 2 788 |
| Real gross domestic product per capita growth (percentage) | (1.3) | 4.3 | (15.7) | (8.1) | 6.1 | 8.9 | 2.7 | (1.5) |
| Real gross national income per capita growth (percentage) | 0.7 | 4.1 | (16.7) | (6.5) | 3.6 | 8.6 | 3.6 | (00.4) |
| **Population and labour** | | | | | | | | |
| Population (millions) | 2.34 | 2.96 | 3.23 | 3.61 | 4.05 | 4.17 | 4.29 | 4.42 |
| Unemployment (percentage[b] | 32.6 | 21.7 | 41.2 | 29.8 | 30.0 | 25.8 | 26.7 | 27.0 |
| Total employment (thousands) | 417 | 588 | 452 | 636 | 744 | 837 | 858 | 885 |
| Public sector | 51 | 103 | 125 | 148 | 179 | 188 | 195 | 204 |
| Israel and settlements | 68 | 135 | 42 | 55 | 78 | 84 | 83 | 99 |
| **Fiscal balance (percentage, gross domestic product)** | | | | | | | | |
| Revenue net of arrears/clearance withheld | 13.2 | 23.9 | 8.5 | 25.0 | 22.6 | 20.9 | 20.2 | 23.5 |
| Current expenditure – commitment basis | 15.3 | 22.6 | 29.0 | 49.3 | 36.9 | 33.1 | 32.4 | 33.5 |
| Total expenditure – cash basis | 25.6 | 29.9 | 35.4 | 55.0 | 41.5 | 31.3 | 29.1 | 31.0 |
| Overall balance – cash basis | (12.3) | (6.1) | (27.0) | (30.0) | (18.9) | (10.4) | (8.9) | (7.5) |
| **External trade** | | | | | | | | |
| Net current transfers (million dollars) | 400 | 374 | 1 052 | 1 276 | 1 991 | 1 246 | 1 116 | 1 874 |
| Exports, goods and services (million dollars) | 499 | 684 | 380 | 678 | 1 152 | 1 510 | 1 670 | 2 067 |
| Imports, goods and services (million dollars) | 2 176 | 3 353 | 2 519 | 3 202 | 4 626 | 5 775 | 6 467 | 6 447 |
| Trade balance (million dollars) | (1 677) | (2 670) | (2 139) | (2 523) | (3 474) | (4 266) | (4 797) | (4 380) |
| Trade balance (percentage, gross domestic product) | (52.1) | (63.9) | (62.3) | (54.6) | (41.7) | (43.6) | (46.8) | (40.7) |
| Trade balance with Israel (million dollars) | (922) | (1 598) | (886) | (1 887) | (2 737) | (3 085) | (3 481) | (3 096) |
| Trade balance with Israel (percentage, gross domestic product) | (28.6) | (38.2) | (25.8) | (40.9) | (32.9) | (31.6) | (33.9) | (28.8) |
| Palestinian National Authority trade with Israel/total Palestinian National Authority trade (percentage)[c] | 92.3 | 68.6 | 53.5 | 72.5 | 75.5 | 68.7 | 64.9 | 60.4 |
| Palestinian National Authority trade with Israel/total Israeli trade (percentage)[c] | 4.3 | 3.7 | 1.8 | 2.2 | 2.7 | 2.7 | 2.8 | 2.7 |

*Sources*: Palestinian Central Bureau of Statistics (PCBS), Palestinian Ministry of Finance, International Monetary Fund, ILO and Israel Central Bureau of Statistics.

*Note*: Except for the population figures, all data exclude East Jerusalem, since the PCBS has no access to the city.

[a] Preliminary estimates. The PCBS is currently revising its national accounts data and rebasing real values to 2010.

[b] ILO's relaxed definition of unemployment includes discouraged workers.

[c] Palestinian and Israeli trade data refer to goods, and non-factor and factor services.

13. Gaza's seven-year-long excessive pressure on the public finances of the Palestinian National Authority eased slightly in 2013, although the Gaza Strip still contributed a meagre 3 per cent of the revenue of the Palestinian National Authority, while claiming 43 per cent of its expenditure. Gaza's contribution to the public finances of the Palestinian National Authority is unlikely to return to its pre-2007 level unless Israel lifts its blockade.

14. The fiscal control efforts of the Palestinian National Authority featured zero net hiring in the public sector, reduced allowances, rationalization of social transfers and non-wage expenditure, a decrease in net lending, an enlargement of the tax base and an increase in the value added tax rate by 1 per cent. Although the wage bill still consumes about 50 per cent of recurrent expenditure, the Palestinian National Authority was able to reduce its share of GDP from 26–16 per cent between 2006 and 2013 (World Bank, 2014). Importantly, this was done in an environment characterized by high unemployment, a private sector incapable of job creation and immense pressure on the Palestinian National Authority to provide employment opportunities for a young and growing labour force.

15. Nonetheless, the fiscal situation is much worse than suggested by official statistics, which should be viewed in the context of prolonged occupation. Furthermore, the fiscal reform efforts of the Palestinian National Authority were outweighed by the recent decline in foreign aid. The $1.3 billion of aid disbursements in 2013 were $500 million below the 2008 level. The reduction in aid pushed the Palestinian National Authority to resort to arrears accumulation to finance the deficit, adding $490 million to its arrears in 2013, two thirds of which are owed to the pension fund. Accumulation of arrears beyond a certain point is unsustainable and may be fiscally counterproductive if it limits the expansion of the tax base by undermining private investment.

16. In addition to arrears, the Palestinian National Authority resorted to borrowing from domestic banks and built up a domestic debt stock of $1.3 billion (50 per cent of public revenue) by early 2014. In an effort to provide the Palestinian National Authority with more financing options and restructure the debt away from high-interest, short-term loans, the Palestinian Monetary Authority announced its intention to issue three-year bonds worth $200 million to be traded within the banking sector. This should be viewed with caution because it could increase the reliance on domestic borrowing in the face of uncertain aid flows, and therefore may worsen the already high exposure of the banking system to the Palestinian National Authority.

17. The survival and credibility of the Palestinian National Authority requires a stable fiscal space, which is nearly impossible to attain under occupation. Coping with the narrow fiscal space through borrowing is not a viable solution. The Palestinian National Authority has little access to external credit, and the accumulation of arrears and borrowing from domestic banks are unsustainable. The option of expenditure compression and fiscal austerity – beyond a certain limit – is counterproductive in purely fiscal terms, as it can push the economy into a downward spiral. It is imperative, therefore that donors increase their support to the Palestinian National Authority to avoid the onset of socioeconomic and governance crises.

18. In this regard, donor fatigue should not set in as a result of lack of progress on the political front. On the contrary, donors would need to scale their support up, not down, to offset the negative economic impact of political uncertainty and any additional Israeli restrictions. However, this should not in any event be a substitute for ending the Israeli occupation.

## B. Palestinian women disenfranchised and marginalized by occupation

19. With deteriorating economic conditions, rising unemployment and declining real wages in 2013, poverty and food insecurity have deepened in the Occupied Palestinian Territory. The latest available statistics show that the percentage of Palestinian households classified as food insecure rose from 27–34 per cent between 2011 and 2012. In the latter year, 26 per cent were considered to be marginally food secure and 16 per cent, vulnerable to food insecurity. This means that only one in four households in the Occupied Palestinian Territory is classified as food secure.

20. Palestinian households have been coping with food insecurity by deploying a series of short-term strategies, such as buying food on credit, defaulting on utility bill payments, borrowing from relatives and friends, as well as reducing the variety, quantity and quality of food consumed. The precarious socioeconomic conditions could have been worse, had it not been for the Palestinian National Cash Transfer Programme covering 104,030 households, 54 per cent of which are located in Gaza.

21. The humanitarian conditions in Gaza deteriorated further. From a dire state in 2011, socioeconomic conditions worsened in 2012, as 57 per cent of households were classified as food insecure, four out of five people depended on humanitarian aid and one third of households reduced the number of daily meals (ILO, 2014). The shortages in construction materials and related price hikes resulted in mass unemployment in the construction sector, which used to absorb 10 per cent of the Gaza workforce and thereby increased the poverty and food-security rates.

22. The Israeli constraints in general and restrictions on the mobility of Palestinian workers in particular, have had a disproportionately high impact on Palestinian women because they are more vulnerable not only to all the measures enforced at the checkpoints, but also to settler violence and prolonged commutes to work locations. Therefore, Palestinian women suffer higher unemployment rates, and their participation in the labour force is very low, even by regional standards. Moreover, the widespread poverty and retreat of discouraged Palestinian men from the labour market caused by the dearth of employment opportunities have affected women negatively. The situation has forced many of them to seek to augment household income by taking unprotected, low-paying jobs close to home in the informal and unprotected sectors, such as informal agriculture, petty trade, crafts and livestock production (Al-Botmeh, 2013).

23. Occupation exacts an additional socioeconomic toll by lowering the economic participation of the average Palestinian woman, who is well educated by international standards. This forestalls their potential contribution to sustainable social and economic development in the Occupied Palestinian Territory. The shocking rates of underutilization of youth, college graduates and women's human capital will have lasting effects on Palestinian society. Table 2 shows the disproportionate labour market marginalization of Palestinian women in terms of low participation and high unemployment rates.

24. Because of the structural distortions of the Palestinian economy, women's participation is concentrated in the informal sector and a narrow range of fields in the formal economy. Women tend to be represented more in professional and clerical public sector jobs, and at the lower end of the agricultural and informal sectors. The inability of the constrained Palestinian economy to produce decent employment opportunities leaves relatively young rural women, with only a high-school education or less, with dim employment prospects and a myriad of social disadvantages.

Table 2
**Unemployment and labour force participation rates by sex in 2013 and 2008**

| | *Unemployment rate (percentage)* | | | *Participation rate (percentage)* | | |
|---|---|---|---|---|---|---|
| | Overall | Male | Female | Overall | Male | Female |
| **2013** | | | | | | |
| Occupied Palestinian Territory | 23.4 | 20.6 | 35.0 | 43.6 | 69.3 | 17.3 |
| West Bank | 18.6 | 16.8 | 25.9 | 45.0 | 71.3 | 18.0 |
| Gaza Strip | 32.6 | 27.8 | 53.1 | 41.2 | 65.8 | 16.0 |
| **2008** | | | | | | |
| Occupied Palestinian Territory | 26.0 | 26.5 | 23.8 | 41.3 | 66.8 | 15.2 |
| West Bank | 19.0 | 19.5 | 16.7 | 43.0 | 68.3 | 17.1 |
| Gaza Strip | 40.6 | 40.2 | 42.8 | 38.1 | 64.0 | 11.7 |

*Source: PCBS, annual labour market survey.*

*Note:* Unemployment rates follow the strict definition used by the International Labour Organization, while those in table 1 follow the relaxed definition, which includes discouraged workers who are not seeking employment at the present time.

## C. Prerequisites for transforming the Palestinian economy

25. Despite the unanimous recognition of the credibility of the Palestinian National Authority's institutional capacity and the international consensus in favour of a two-State solution (United Nations Security Council resolution 1397 (2002)), the prospects for the emergence of a sovereign, contiguous, viable Palestinian State remain elusive. The continuous loss of land and natural resources to occupation have not only precluded the Palestinian National Authority from the provision of public goods in most of the West Bank where it lacks access and control, but now threatens to erode its hard-won achievements, breeding further political instability. It is therefore critical that the international community strengthen its support to the Palestinian National Authority at all levels, including the mobilization of the $1.8 billion required for successful implementation of the 2014–2016 National Development Plan.

26. The Office of the Quartet Representative (2013) announced the Initiative for the Palestinian Economy, which aims to achieve the rapid and positive transformation of the economy of the Occupied Palestinian Territory and envisages private and donor-funded investment in the range of $19 billion to foster a 50 per cent increase in GDP over six years.

27. Effective implementation of the plan, however, hinges on a set of "critical enablers" identified by the Office, most of which are firmly in the hands of Israel. These enablers include Israel's cooperation to facilitate investment in infrastructure, tourism, manufacturing, telecommunication, energy, water and housing in Gaza, East Jerusalem and Area C, as well as the reconnection of Gaza with the West Bank and the lifting of Israeli restrictions on movement and access.

28. Notwithstanding the large scope of the Initiative, history shows that international support is unlikely to put the Palestinian economy on a path of sustainable growth under occupation, constricted policy space and mobility restrictions. Neither will foreign investors come forth under such prohibitive conditions such as high production costs, political risk and uncertainty.

29. Overcoming the main impediments to the recovery of the Palestinian economy and resolving the Palestinian National Authority's fiscal crisis requires a fundamental change in the economic relations between Palestine and Israel. The lifting of occupation constraints on Palestinian development is a prerequisite for the successful implementation of the Initiative for the Palestinian Economy.

30. The asymmetry of power between the occupier and the occupied continues to be the norm in the Occupied Palestinian Territory. It is therefore incumbent on the international community to urge Israel to support the right of the Palestinian people to development by cooperating with the international community and facilitating the critical enablers identified by the Office of the Quartet Representative as preconditions for the success of the Initiative.

# II. Settlements and occupation of Area C smother economic viability of the Occupied Palestinian Territory and the two-State solution

## A. Status of occupied Area C and its economic resources

31. The Palestinian territory, which was occupied by Israel in 1967, encompasses about 6,200 square kilometres ($km^2$) or 22 per cent of historic Palestine under British mandate. It includes 360 km2 in the Gaza Strip, and about 5,840 $km^2$ in the West Bank, including East Jerusalem and the Dead Sea. According to the Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip, signed by the Palestine Liberation Organization and Israel in September 1995,[1] the West Bank is divided into three parts: Areas A, B and C. Area C includes more than 61 per cent of the area of the West Bank, and is under complete Israeli control, including security, planning and zoning. Area C includes the most fertile agricultural areas and the bulk of Palestinian land reserves for development activities. Area A, which represents less than 18 per cent of the West Bank, is under the Palestinian National Authority's civil and security control, while Area B, which covers 21 per cent of the West Bank, is supposed to be under Palestinian civil control, and joint Israeli-Palestinian security control.

32. Although the Agreement was only a temporary arrangement, today, nearly two decades after signature, Israel continues to occupy, control, and impose measures altering the geographical and demographical status and state of the Occupied Palestinian Territory, particularly Area C. The occupation of Area C renders more than 61 per cent of Palestinian land in the West Bank and its natural resources out of reach for Palestinian development and breaks the geographical contiguity of the whole West Bank (figure 1). This simply pre-empts Palestinian development not only in Area C but in the entire Occupied Palestinian Territory by blocking any meaningful infrastructure or private sector development projects within and between Palestinian cities and villages, thereby further diminishing the economic viability of the two-State solution.

33. Actions taken by Israel to alter the conditions on the ground in Area C are also worrisome. These include the displacement of the Palestinian population, demolition of residential structures, restrictions on movement, access and economic activities, discriminatory regional planning and zoning systems, construction of the separation barrier and settlements, and the growing number of Israeli settlers. These measures are in contradiction with international law; as such Israel is in violation of its international

[1] Also known as Oslo II agreement; the full text is available at http://www.refworld.org/cgi-bin/texis/vtx/rwmain?docid=3de5ebbc0 (accessed 26 June 2014).

obligation as the occupying power. In the words of the United Nations Secretary General, "Settlements in the West Bank and East Jerusalem are illegal under international law and constitute obstacles to achieving peace. Demolitions of Palestinian households and other property are in contradiction to Israel's obligations to protect the civilian populations under its occupation."[2]

34. Despite unequivocal objections by the international community, voiced, for example in General Assembly resolution 68/82 of 16 December 2013, Israel stepped up the construction of settlements, and more than doubled the rate of expansion compared with 2012, thereby redefining the landscape in the West Bank, including East Jerusalem. Settlements and related infrastructure now cover 42 per cent of the land in the West Bank, and the settler population has tripled since the Oslo Accords to about 500,000–650,000 (ILO, 2014).

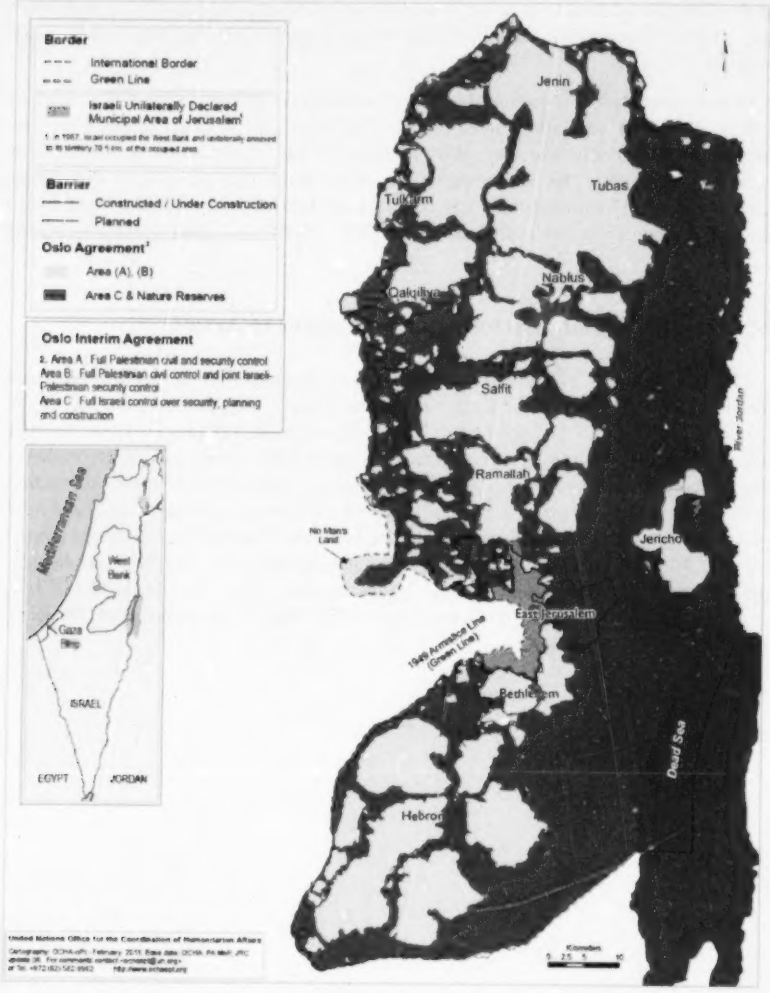
## B. Israel's restrictive and discriminatory measures in Area C

35. The establishment of new Israeli settlements and expansion of existing ones has become common in the entire West Bank, not only in Area C.[3] Settlements have altered the West Bank's landscape to an archipelago of disconnected islands (figure 1), and settler violence against the Palestinian people exacts a serious economic toll. Such violence includes the takeover of, and damage to, private property; obstruction of access to grazing or agricultural land and water resources; and attacks on livestock, agricultural land and holy places, as well as uprooting and vandalizing of trees and damage to other agricultural property. In 2013, 10,142 trees were reported burned, uprooted, or otherwise vandalized, including in areas adjacent to settlements, compared with 8,259 trees in 2012 (OCHA, 2013a). These factors create relentless pressures on the Palestinian communities to leave their ancestral land and relocate.

[2] Message of the Secretary-General at the opening session of the International Meeting on the Question of Jerusalem, 12 and 13 May 2014. Available at http://www.un.org/sg/statements/index.asp?nid=7664 (accessed 1 July 2014).

[3] Data and information in this section were obtained mainly from the Office for the Coordination of Humanitarian Affairs (OCHA, 2014a, 2014b and 2013b).

Figure 1
**Map of Area C**



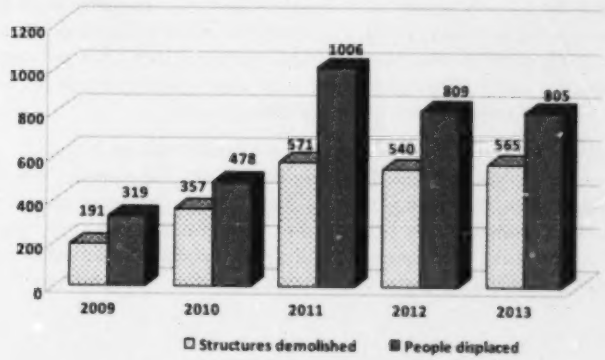

*Source:* OCHA, www.ochaopt.org/documents/ocha_opt_area_c_map_2011_02_22.pdf (accessed 27 June 2014).

26. It is estimated that 300,000 Palestinians in Area C live in 532 residential communities. According to OCHA (2011), 62 per cent of the occupied West Bank area is not accessible to Palestinians. This means that the Government of Israel has designated 39 per cent (more than twice that of area A) for settlements and their future expansion, 20 per cent for closed Israeli military areas (including firing zones), and 13 per cent for natural reserves. Consequently, Israel bans all Palestinian construction in 70 per cent of Area C, allowing a meagre 1 per cent for Palestinian spatial developmer , while heavily restricting construction in the remaining 29 per cent.

37. In 1970 Israel declared about 18 per cent of the West Bank, or 30 per cent of Area C, restricted areas designated as firing zones.[4] There are 38 Palestinian communities numbering 6,200 inhabitants within these zones, in addition to 50 communities with 12,000 residents living in close vicinity. Most of these communities existed before the establishment of these zones. On a regular basis, members of these communities are temporarily evicted from their homes, while others are subject to permanent Israeli eviction orders and demolition of their houses and residential structures. Palestinians living in these zones also experience confiscation of property, settler violence, harassment by soldiers, mobility restrictions and denial of access to water, other resources and infrastructures (OCHA, 2012a). In contrast, at least 10 Israeli outpost settlements, illegal even under Israeli law, are left to locate in the firing zones, facing no risk of demolition.

38. To maintain and reinforce the ongoing land transformation process, Israel established an extremely rigid permit regime, whereby any Palestinian building without a permit can be demolished and its inhabitants displaced. According to the Israeli non-governmental organization Bimkom – Planners for Planning Rights,[5] the Israeli Civil Administration has issued 12,570 demolition orders against Palestinian structures in Area C since 1988 (OCHA, 2014a). In a five-year period, 2009–2013, 2,224 Palestinian structures (figure 2) were demolished, including residential structures and schools in the firing zones. The demolitions peaked in 2011, with more than 1,000 structures demolished in one year. Consequently 3,417 Palestinians in Area C were displaced in five years only.

Figure 2
**Demolitions and displacement in Area C, 2009–2013**




*Source:* OCHA (2014a and 2013b)

39. While Palestinians are forcefully displaced, the Israeli settler population in Area C rose from 800 in 1972 to more than 360,000 in 2012 (PCBS, 2013). The annual growth rate of settlers – 5 per cent – is three times that of the population growth of Israel. Settlers in Area C live in at least 125 settlements and 100 outposts, with areas for future expansion nine times larger than their present built-up areas (B'Tselem, 2013).

40. The Israeli Civil Administration has powers with regard to planning, zoning, issuance of building permits and demolition in Area C. Of the 532 Palestinian communities in Area C, only 14 per cent presently have planning schemes that have been approved by the Civil Administration for development in an area representing only half a percentage

[4] Area equals the whole of Area A, which is under Palestinian control.
[5] See http://bimkom.org (accessed 27 June 2014).

point of Area C. Furthermore, of the 3,750 building permit applications submitted by Palestinians to the Civil Administration between 2000 and 2012, only 5.6 per cent were approved. In contrast, more than 15,000 residential units were built in settlements between 2000 and 2010 (B'Tselem, 2013).

41. Two thirds of the farmland of the Occupied Palestinian Territory, including the most fertile and best grazing land, is located in Area C, where Palestinian agriculture is under siege by an array of overlapping restrictions blocking Palestinian private and public sector access to their arable land. The Land Research Centre (2010) estimates that Palestinians cannot access half a million dunums[6] – 14 per cent of Area C – of arable land because it is either occupied or cultivated by settlers (187,000 dunums), or because of lack of water. Additionally, Palestinians are denied access to about one million dunums (27 per cent of Area C) that could be used for grazing or forestry.

42. A host of other Israeli restrictions ensures inefficient and uncompetitive use of Palestinian agricultural land. Palestinian farmers are not allowed to build structures or dig wells without Israeli permits, which are almost impossible to obtain. Palestinian farmers are also not allowed to use proper concentration fertilizers and are forced to use longer roads and pass through checkpoints, which increases transportation time and cost significantly (UNCTAD, 2013).

43. Some of the most fertile Palestinian agricultural land is trapped between the Green Line and the separation barrier in the seam zone. Palestinians who live in the seam zone need special permits to live in their own homes and access their lands. The costly and uncertain permit requirements undermine the scope for meaningful economic activity. Limitations on access have forced some permit holders to stop cultivation altogether or shift from labour-intensive to rain-fed, low-value crops. The restrictive permit system has led to lower productivity of rain-fed crops in the seam zone. Data collected by OCHA indicate that, in the last five years, the yield of olive trees in the seam zone was 60 per cent lower than the equivalent on the other Palestinian side of the separation barrier.

44. Similarly, Palestinians have very limited access to the natural resources in Area C – marble, stones and building materials, and Dead Sea minerals and salts, for example. While Israeli settlers are allowed to exploit these resources, including in settlement quarries (OCHA, 2012b), few new Palestinian quarry licences have been granted since 1995, and only a few of the existing ones have been renewed (Union of Stone and Marble Industry, 2011). In short, Palestinian public and private investments are forbidden, and sovereignty is denied in Area C.

## C. Economic costs of the occupation of Area C

45. The economic costs of the Israeli occupation of Area C include the economic benefits that Israel and its settlements presently derive from Area C, as well as the potential benefits to Palestinians if the Israeli restrictions on access are lifted. Recently, the World Bank (2013) released a report providing partial estimates of the cost of occupation of Area C. The report constructs a counterfactual scenario assuming no physical, legal or regulatory constraints on Palestinian investment and no restrictions on Palestinian economic agents to freely invest, produce and sell in Area C. The study estimates the direct and indirect economic cost in specific sectors: agriculture, Dead Sea minerals exploitation, stone mining and quarrying, construction, tourism, telecommunications and cosmetics.

[6] One dunum equals 1,000 square metres, and one $km^2$ equals 1,000 dunums.

46. The report estimates that Palestinian GDP could increase by 7 per cent ($704 million in 2011) with free access to 326,400 dunums of arable land, hundreds of thousands of dunums of rangeland and forests, and access to irrigation water in Area C. However, the study excludes from the land notionally available to Palestinians the 187,000 dunums controlled by Israeli settlers.

47. Allowing Palestinian investors access to the large, cheap and easily exploitable deposits of potash and bromine of the Dead Sea could increase Palestinian GDP by 9 per cent ($918 million in 2011). Moreover, free access to 20,000 dunums of land that can be quarried could double the size of the Palestinian stone mining and quarrying industry, the Occupied Palestinian Territory's largest export industry, and could add 2 per cent ($241 million) to GDP. The latter could further increase by 3.5 per cent ($413 million) if Israeli restrictions on the construction, tourism and telecommunication sectors in Area C were lifted.

48. The sum of the direct increase in output from the sectors evaluated in the report amounts to 23 per cent of GDP ($2.2 billion in 2011). However, once the direct benefits are obtained and injected into the economy, additional indirect benefits would be generated as a result of the economic forward and backward linkages. This would have sizeable multiplier effects on the demand for output of other sectors. The report assumed a conservative multiplier of 1.5, which leads to the generation of indirect benefit of 12 per cent of GDP ($1.2 billion in 2011). Hence, the total direct and indirect benefit could be at least 35 per cent of GDP. In other words, the cost of occupation of Area C (considering the evaluated sectors only) is estimated at a minimum of 35 per cent of GDP.

49. At the fiscal level, if the improvement in GDP were to take place, the 2011 tax revenues of the Palestinian National Authority would rise by some $800 million, which would cut the fiscal deficit by half and significantly lower its dependence on aid. Also if the 35 per cent increase in output were to materialize, employment would rise by 35 per cent, and would thus ease the stress on the budget by removing the pressure on the Palestinian National Authority to act as an employer of last resort and provider of large social transfers to the poor and unemployed.

50. Finally, the lack of Palestinian control over Area C forestalls the development of institutional infrastructure such as banking and financial services. Although the World Bank report acknowledges that the cost of these restrictions and the potential benefits of lifting them are considerable, it makes no attempt to quantify them. Furthermore, the report does not consider that the restrictions in Area C have serious constraints on the rest of the Palestinian economy in Areas A and B, and Gaza. The report also confines itself to a number of specific sectors and does not consider all sectors in the economy. Therefore, the true total cost of the occupation of Area C is certainly far greater than 35 per cent of GDP.

51. Moreover, the report's estimated potential increase in the output of Area C itself is partial, conservative and non-exhaustive. For instance, the 187,000 dunums directly used by the settlements have been excluded from the calculations of land potentially cultivable by Palestinians. If the land in Area C had been transferred to the Palestinian National Authority by 2000 as envisaged in the Oslo Accords, the cultivable land area available for Palestinians would be 57 per cent larger than the land area cited in the World Bank report, that is to say, 513,400 dunums, instead of 326,400 dunums. This would imply a cost of occupation of at least 41 per cent of GDP, a 41 per cent increase in employment and a 60 per cent reduction in the fiscal deficit.

## D. Recommendations for action

52. In its report to the Ad Hoc Liaison Committee in March 2013, the Palestinian National Authority affirmed that "Area C is an integral part of the State of Palestine, the backbone of the Palestinian economy, and true sovereignty thrives or dies with control over it" (State of Palestine, 2013). This was reaffirmed in the Palestinian National Development Plan 2014–2016, which was released in early 2014. The position of Area C in the Plan, and how to operationalize its strategic framework, was further outlined in another document released by the State of Palestine in May 2014 (State of Palestine, 2014).

53. The Office of the United Nations Special Coordinator for the Middle East Peace Process (2013) emphasized that Area C was fundamental to the contiguity of the West Bank and the viability of the Occupied Palestinian Territory and its economy. It was essential not only for the expansion of public infrastructure, but also for the development needs of communities in Areas A and B and for the fiscal sustainability of the National Palestinian Authority.

54. Furthermore the European Parliament, in its resolution 2012/2694 (RSP) of 5 July 2012,[7] expressed deep concern about developments in Area C and stressed the critical importance of social and economic developments in the Area for the viability of a future Palestinian State and keeping the prospects for the two-State solution alive. The resolution called on Israel to meet its obligations under international humanitarian law and protect the rights of the Palestinian population in Area C and East Jerusalem by ending house demolitions, evictions and the forced displacement of Palestinians and removing restrictions on access to land and water.

55. However, this broad international attention to Area C needs to be coordinated among the different domestic and international stakeholders to translate it into effective action. It is necessary, therefore, to establish coherent policies, strategies, mechanisms and coordinated actions to achieve these goals. With the help of the international community, the Palestinian National Authority should take the lead in establishing such a coordinated approach within the framework of its National Development Plan 2014–2016.

56. There is an urgent need for action by the Palestinian National Authority, Israel and the international community to ensure that Palestinians have unhampered access to their productive assets in Area C, without which economic development and the two-State solution are inconceivable.

57. Tapping the economic potential of Area C requires significant cooperation from Israel by taking the following measures:

(a) Removing the barriers it installed that hamper investment in all the identified sectors, especially in critical infrastructure;

(b) Attending to the hitherto neglected needs of Palestinian communities and granting permits for critical projects such as the construction of wells to meet growing demand for water;

(c) Allowing the Palestinian National Authority to establish a planning and zoning regime;

(d) Desisting from the demolition of Palestinian structures as the first step preceding the retroactive legalization of all the structures that Palestinians were forced to

[7] See http://www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2012-0298&language=EN (accessed 4 July 2014).

build without Israeli permits. Ultimately, Israel should cede control of Area C to the Palestinian National Authority in accordance with the Oslo Accords.

58. The Palestinian National Authority should consider the following action:

(a) Further enhancing its policy attention to Area C in a more strategic, systematic manner by, for instance, devising effective mechanisms and interventions for supporting, strengthening and protecting Palestinian communities, producers and investors in Area C in all areas, including access to finance, preferential tax treatment and risk sharing;

(b) Building its own legal capacity with the support of its international partners to provide Palestinian communities, producers and investors with legal aid to seek redress in all courts of law, including Israeli courts;

(c) Allocating part of its budget to invest and develop critical infrastructure, provide social services and enable farmers in Area C to use unutilized land, currently belonging to public entities and *waqf*[8] in ways that serve development and help farmers to persevere on their land and withstand the pressure to relocate;

(d) Establishing a national land registry to survey and register all land, especially in Area C;

(e) Enacting legislation, in particular, a Palestinian land law and mortgage and foreclosure laws. The latter would help mitigate the impact of the Israeli control over registration, ownership and transfer of land in Area C, which impedes the use of land as collateral to secure loans for agricultural and other purposes.

# III. UNCTAD assistance to the Palestinian people

## A. Framework and objectives

59. For the last three decades, UNCTAD has been consistently supporting Palestinian economic development endeavours by carrying out research, implementing technical cooperation projects and providing advisory services. This has been done in close cooperation with the Palestinian National Authority, the private sector, donors and international and non-governmental organizations. UNCTAD engagement has been geared towards strengthening Palestinian public and private sector institutional capacities that are essential for the establishment of a well-functioning, independent Palestinian State.

60. The UNCTAD programme of assistance to the Palestinian people is guided by paragraph 31(m) of the Doha Mandate, paragraph 44 of the Accra Accord, and paragraph 35 of the Sao Paulo Consensus. The programme addresses the Palestinian economy's evolving, complex needs through four clusters:

(a) Trade policies and strategies;

(b) Trade facilitation and logistics;

(c) Finance and development;

(d) Enterprise, investment and competition policy.

[8] Endowment made by a Muslim to a religious, educational or charitable cause (http://www.oxforddictionaries.com/definition/english/waqf?q=waqf).

61. In 2013 and early 2014, UNCTAD undertook several missions to the Occupied Palestinian Territory and met with relevant officials of the Palestinian National Authority, members of the United Nations country team, civil society and donors, and discussed areas of current and forthcoming cooperation, ensuring harmonization at all relevant levels.

62. As the United Nation focal point for Palestinian trade and development, UNCTAD in 2013 contributed to the preparation of the United Nations Development Assistance Framework (UNDAF) 2014–2016 for the State of Palestine, which was signed in August 2013. UNDAF is the strategic planning framework that will guide the United Nation's development programming, in full partnership with the Palestinian National Authority. UNDAF focuses on six priority areas:

(a) Economic empowerment, livelihood, food security and decent work;

(b) Governance, the rule of law, justice, security and human rights;

(c) Education;

(d) Health;

(e) Social protection;

(f) Urban development, natural resource management and infrastructure.

## B. Operational activities under way

63. In 2013, UNCTAD continued implementation of a project on developing Palestinian trade facilitation capacity, which aims at consolidating the institutional capacity of the Palestinian Shippers Council by increasing awareness of the best practices on trade facilitation and strengthening national capacities through the provision of training and advisory services. In 2013, legal, technical and training units were established within the Council with clear mandates, and support was provided by consultants and staff members recruited by UNCTAD. The Legal Unit has already handled some 12 legal and technical cases, offering legal advisory services to Palestinian shippers. This has led to considerable reductions in the cost of import supply chains.

64. UNCTAD rolled out a trade facilitation training programme tailored to the needs and circumstances of the Occupied Palestinian Territory. Its comprehensive curriculum features technical, theoretical and practical knowledge about export and import operations. Additionally, 12 workshops were held throughout the Occupied Palestinian Territory, covering trade-related topics ranging from export management to import regulations on food and agricultural products.

65. As in previous years, and in cooperation with the United Nations Division for Palestinian Rights, UNCTAD hosted and trained Palestinian staff from the Palestinian Ministry of National Economy in 2013. They were introduced to the work of UNCTAD, including the meetings of the Trade and Development Board, and the work of other Geneva-based international organizations and United Nations agencies.

66. During the past year UNCTAD continued cooperation with various United Nations agencies and provided inputs to several reports and meetings on the question of Palestine. For example, it took part in the International Meeting on the Question of Jerusalem, held by the Committee on the Exercise of the Inalienable Rights of the Palestinian People, in Ankara, in May 2014.

67. UNCTAD also delivered a presentation on the integration of Palestine in international markets to an international conference on the role of trade in promoting the economic development of Palestine. The conference was organized by the European Union

and the Government of Turkey. Furthermore, in the context of the post-2015 development agenda, the secretariat was invited by the Arab States/Middle East and North Africa Regional United Nations Development Group to contribute to the Arab Development Forum.

68. Building on its long-standing support to the development and modernization of Palestinian customs capacity, UNCTAD maintained close contacts with the Palestinian National Authority, potential donors and the United Nations country team in the Occupied Palestinian Territory to secure funding for a new technical cooperation project. The aim of the project is to consolidate achievements of previous projects and ensure a complete handover to the Palestinian National Authority of the Automated System for Customs Data, commonly known as ASYCUDA.

69. In another area, UNCTAD drafted a proposal in cooperation with UN Women and the International Trade Centre for a technical cooperation project entitled "One-Stop Shop to Create Sustainable Businesses with Export Potential". The proposal is based on the UNCTAD-Empretec approach and aims to enhance the capacities of small and medium-sized enterprises, with a special focus on Palestinian women and youth.

### C. Coordination, harmonization and resource mobilization

70. The acute need for mobilizing additional resources to deliver technical cooperation support became more apparent in 2013, as several vital projects envisioned for building critical Palestinian institutional capacities remained without funding. During the year, UNCTAD closely coordinated with the Palestinian National Authority, Palestinian civil society, the donor community and United Nations agencies, funds and programmes on ongoing projects and forthcoming activities.

71. Despite tangible progress in providing technical cooperation support, advisory services, and research and analysis, the contributions of UNCTAD to the Palestinian people remain hampered by the inadequacy of resources and difficult conditions affecting the access of staff and consultants to the field.

## References


Al-Botmeh S (2013). *Barriers to Female Labour Market Participation and Entrepreneurship in the Occupied Palestinian Territory*. The Centre for Development Studies. Birzeit University and the Young Women's Christian Association of Palestine. Birzeit, Palestine.

B'Tselem (2013). *Acting the Landlord: Israel's Policy in Area C, the West Bank*. June.

International Labour Office (2014). *The Situation of Workers of the Occupied Arab Territories*. Report of the Director-General. Appendix. International Labour Conference, 103rd session. ILC.103/DG/APP. Geneva.

Land Research Centre (2010). *Land Suitability for Reclamation and Development in the West Bank*. Hebron, Palestine.

Office for the Coordination of Humanitarian Affairs (2011). Restricting space in the OPT: Area C Map. December.

_____ (*2012a*). *The Humanitarian Impact of Israeli-Declared "Firing Zones" in the West Bank*. August.

_____ (2012b). *The Monthly Humanitarian Monitor*. January.

_____ (2013a). *Humanitarian Bulletin: Monthly Report.* December.

_____ (2013b). *Area C of the West Bank: Key Humanitarian Concerns.* January.

_____ (2014a). *Fragmented Lives: Humanitarian Overview 2013.* Available at http://www.ochaopt.org/documents/ocha_opt_annual_review_2014.pdf (accessed 2 July 2014).

_____ (2014b). *Area C: Vulnerability Profile.* Available at http://www.ochaopt.org/documents/ocha_opt_fact_sheet_5_3_2014_En.pdf (accessed 2 July 2014).

Office of the Quartet Representative (2013). *Summary of the Palestinian Economic Initiative.* Report to the Ad Hoc Liaison Committee Meeting. New York. 25 September.

Office of the United Nations Special Coordinator for the Middle East Peace Process (2013). Closing the Gap: Palestinian State-building and Resumed Negotiations. Report to the Ad Hoc Liaison Committee. New York. 25 September.

Palestinian Central Bureau of Statistics (2013). Number of settlers in West Bank exceeds half a million. Press release. 13 August.

State of Palestine (2013). Palestine: A State under Occupation. The Government of Palestine's Report to the Ad Hoc Liaison Committee. Ministry of Planning and Administrative Development. Brussels. 19 March.

_____ (2014). *The National-Strategic Framework for Policies and Developmental Interventions in the So-called Area "C" (2014–2016).* Ministry of Planning and Administrative Development. May. Available in Arabic only.

UNCTAD (2013). Report on UNCTAD assistance to the Palestinian people: developments in the economy of the Occupied Palestinian Territory. TD/B/60/3. Geneva. 8 July.

Union of Stone and Marble Industry (2011*). Stone and Marble in Palestine: Developing a Strategy for the Future.* Available at http://www.lacs.ps/documentsShow.aspx?ATT_ID=4618 (accessed 1 July 2014).

World Bank (2013). West Bank and Gaza: Area C and the Future of the Palestinian Economy. Report No. AUS2922.

_____ (2014). West Bank and Gaza: Economic Monitoring Note. Spring/March.

United Nations TD/B/61/4

United Nations Conference on Trade and Development

Distr.: General
4 July 2014

Original: English

**Trade and Development Board**
**Sixty-first session**
15–26 September 2014
Item 6 of the provisional agenda

# Economic development in Africa: Catalysing investment for transformative growth in Africa

## Overview

*Executive summary*

Investment is a major driver of long-run growth and development. It is necessary to build productive capacities, transform the structure of economies, generate employment and reduce poverty. Over the past decade, African countries have had relatively good economic growth performance. However, average investment rates on the continent remain low relative to what is considered necessary to achieve national development goals. They are also low relative to the average rate for developing countries. These facts suggest that Africa's recent growth may be fragile and that it is unlikely to be sustained in the medium to long term if current trends continue. The key question, then, is how can African governments catalyse investment for sustained and transformative growth? The *Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa* addresses this issue. It underscores the need to enhance the contribution of investment to growth by boosting investment rates, improving the productivity of existing and new investments and ensuring that investment goes to strategic and priority sectors deemed crucial for economic transformation. It also stresses the importance of strengthening linkages between local and foreign enterprises, stemming capital flight to release more resources for investment, using aid to stimulate investment and fostering international trade to raise investment. In each of these areas, the Report emphasizes the need for policy coherence at the national and international levels.

GE.14-07451 (E)
*1407451*

Please recycle

# Introduction

1. Africa entered the twenty-first century on a very good note. The economic growth performance of most African countries over the past decade has been good relative to the continent's historical growth performance and the average growth rate for the global economy. Despite Africa's recent growth performance, there are indications that countries on the continent are experiencing the wrong type of growth in the sense that joblessness is still widespread and growth has not led to significant reductions in poverty. One of the reasons behind jobless growth in Africa is that the continent has not gone through the normal process of structural transformation, involving a shift from low- to high-productivity activities, both within and across sectors. In the normal process of economic transformation, economies begin with a high share of agriculture in gross domestic product (GDP), and as incomes rise, the share of agriculture declines, and that of manufacturing rises. This process continues until the economy reaches a relatively high level of development where both the shares of agriculture and manufacturing fall and those of services rise. The structural change observed in Africa has not followed this process. Over the past three decades the continent has moved from a state in which agriculture had a very high share of output to one in which the service sector, particularly low-productivity activities within the sector, dominates output. This transition has taken place without any significant manufacturing development, which is critical to creating employment. It is therefore not surprising that Africa has experienced jobless growth over the past decade.

2. Another reason why Africa's recent growth has not had a profound impact on either poverty reduction or employment creation is that it has not gone hand in hand with the development of productive capacities, which is crucial for generating decent jobs and reducing poverty. These structural issues associated with the recent growth of African countries raises the question of how they can achieve the high, sustained and transformative growth necessary to reduce poverty. UNCTAD (2012) identified investment as one of the main drivers of structural transformation. Furthermore, research studies suggest that for African countries to make significant progress in reducing poverty, they would have to sustain growth rates of about 7 per cent and above in the medium to long term, and this would require investment rates of 25 per cent of GDP and above. Currently, investment rates in Africa are well below this threshold. They are also low relative to what is observed in rapidly growing developing countries. Boosting investment is therefore of strategic importance to achieve the broad development goals of African countries. It is also imperative if Africa is to achieve sustained growth and be a pole of global growth in the twenty-first century.

3. Against this background, the *Economic Development in Africa Report 2014: Catalysing Investment for Transformative Growth in Africa* explores how to boost and use investment in support of economic transformation and sustained growth in Africa. The term "investment" as used in the Report refers to total investment in the economy, which includes public and private investment. Private investment consists of investment by local private investors and foreign direct investment (FDI). The focus of the Report on total investment reflects the fact that all components of investment matter for growth and development; therefore, the focus of policy should be on how to exploit the complementarities among the various components, rather than promoting one component at the expense of the other. Some of the key findings and recommendations of the Report are highlighted in the following section.

# I. Main findings

## A. Low investment rates

4. The low investment rates in African countries relative to the average for developing countries is of concern, given that investment is a key determinant of long-run growth and is essential for building productive capacities, creating employment and reducing poverty in Africa. On average, the investment rate for Africa was about 18 per cent over the period 1990–1999, compared with 24 per cent for developing economies as a whole. Similarly, in the period 2000–2011, the average investment rate for Africa was about 19 per cent, compared with 26 per cent for developing economies overall.

5. The average investment rates for Africa hide substantial cross-country variation. High investment rates in the range of 25 per cent and above are rarely sustained in African countries. Over the past two decades, only a small set of these countries have sustained investment rates of 25 per cent and above, namely Algeria, Botswana, Cape Verde, the Congo, Equatorial Guinea, Guinea, Lesotho, Sao Tome and Principe, and Seychelles.

6. The majority of African countries have low investment rates. For example, over the period 2000–2011, the following countries had average investment ratios below 15 per cent: Angola, the Central African Republic, the Comoros, Côte d'Ivoire, Guinea-Bissau, Liberia, Libya, Nigeria, Sierra Leone, Swaziland and Zimbabwe. Research studies also suggest that Africa's investment rates are lower than optimal levels in the sense that they are below what is needed to sustainably reduce poverty and achieve international development goals such as the Millennium Development Goals. For example, based on some studies, an investment rate of 25–33 per cent is required for African countries to be able to reach the growth rate of 7 per cent estimated to be necessary to meet the Goals, especially the goal of reducing poverty by half by 2015. Most African countries have not been able to meet this target.

## B. Structural problems with recent growth

7. On the demand side, recent growth has been driven mostly by consumption, and there has been no significant improvement in average investment rates in Africa over the past two decades. Although consumption is an important source of domestic demand and has been the dominant driver of growth in Africa over the past decade, a consumption-based growth strategy cannot be sustained in the medium to long term because it often results in overdependence on imports of consumer goods. This presents challenges for the survival and growth of local industries, the building of productive capacities and employment creation. Furthermore, it causes a deterioration of the current account balance, which would have to be corrected or reversed in the future to maintain external sustainability. Experience has shown that reversals of such current account imbalances often require drastic reductions in consumption, which have a severe negative impact on growth. While investment booms can also deteriorate the current account, recent evidence suggests that current account deficit reversals caused by investment booms that increase the production capacity for tradable goods are associated with better growth performance than those driven by consumption booms (Klemm, 2013).

8. There are also structural problems with Africa's recent growth from a supply or sectoral perspective. For example, it has not been transformative. Although Africa has had high and steady growth over the past decade, many countries have yet to go through the normal process of structural transformation, characterized by a shift from low- to high-productivity activities, as well as a declining share of agriculture in output and employment

and an increasing share of manufacturing and modern services in output. Available data indicate that the share of manufacturing in total value added has declined over the past two decades. It fell from an average of 14 per cent in the period 1990–1999 to 11 per cent in the period 2000–2011. Furthermore, the service sector is now the most dominant sector of African economies. Its share of total value added in the period 2000–2011 was about 47 per cent, compared with 37 per cent for industry and 16 per cent for agriculture. In terms of dynamics, over the same period the service sector had an average growth rate of 5.2 per cent, agriculture, 5.1 per cent and industry, 3.5 per cent. Since the service sector has the highest growth rate as well as a higher share of total value added, its contribution to growth has been higher than those of other sectors.

9. This pattern of structural change differs substantially from what one would expect, since Africa is still in an early stage of development. As a rule, the service sector in the early stages of development does not play such a dominant role in an economy. Furthermore, the dominance of the service sector should be of concern because it is driven mostly by low-productivity activities such as informal and non-tradable services. These facts suggest that Africa's recent growth is fragile and is unlikely to be sustained in the medium to long term if current trends continue.

## C. Increased productivity of investment

10. The incremental capital–output ratio (ICOR), which measures the degree of inefficiency in the use of capital, suggests that there has been a significant increase in the productivity of aggregate investment over the past two decades. The ratio is computed in such a way that a higher value for an economy indicates lower productivity. Available data indicate that in the period 2000–2011 the ICOR for Africa was 4.1, compared with 7.4 in the period 1990–1999. This represents a significant increase in the productivity of investment in Africa. The data also indicate that compared with other developing-country groups, the productivity of investment in Africa in the period 2000–2011 was much higher than those of developing countries in America and slightly higher than those of Asia.

11. This represents a big shift compared with the 1990s, when investment was less productive in Africa than in other developing-country groups. While there has been a significant improvement in the productivity of investment at the aggregate level, there were 22 African countries for which the productivity of investment either did not change or declined between 1990–1999 and 2000–2011, indicating that more effort will be needed by African countries to sustain or improve upon the recent increases in the productivity of aggregate investment.

## D. Public investment matters for growth

12. It is often argued that what matters for growth is private, not public investment. However, results of country-level studies using African data indicate that public investment also matters for growth in Africa and catalyses or complements private investment. For example, Samake (2008) found that public investment crowds in private investment and both types of investment have a significant impact on growth in Benin. Similar evidence has also been provided for Cameroon (Ghura, 1997). Other studies have found that public capital is generally productive and boosts output at the sectoral or national level. An example is the study on South Africa by Fedderke et al. (2006). Additional supportive empirical evidence on the role of public investments in the growth process in Africa can be found in Fosu et al. (2012). These findings confirm the strategic role of public investment in the growth process.

## E. Decline in public investment rates

13. Compared with the early 1980s, public investment rates in Africa have declined sharply over the past two decades. In particular, public investment rates fell from a peak of 11.5 per cent in 1982 to about 5 per cent in 2012. Unlike in the 1980s, public investment rates in Africa were relatively stable in the 1990s and 2000s, with the average rate being about 7.5 per cent in each of these two decades.

14. These numbers are below what a recent study suggests is optimal for Africa. For example, simulations of growth models show that the public investment rate that maximizes consumption is between 8.4 per cent and 11 per cent, depending on the discount rate used (Fosu et al., 2012). At the country level, the evidence shows that public investment rates in at least 23 countries have fallen over the past two decades, with the most dramatic declines observed in the following countries: Cape Verde, from 18.1–13 per cent; Egypt, from 14.5–8.2 per cent; Eritrea, from 17.6–13.4 per cent; and Lesotho, from 18.2–9.1 per cent.

## F. Unlocking investment potential for transformative growth

15. A review of the literature on African economic development suggests that the main determinants of investment in Africa are access to credit and the cost of finance, domestic savings, risk and uncertainty, inequality of income distribution, and the policy and investment environment as reflected, for instance, in the level and quality of infrastructure. Clearly, given the heterogeneity of African countries, the relative importance of these factors varies from country to country. Nevertheless, the Report finds that the most binding constraints to investment in most African countries are weak access to affordable finance, poor infrastructure, and risk and uncertainty.

## G. Decrease in external finance

16. African countries have historically used external finance such as FDI, debt and official development assistance to complement domestic resources for investment. This is evidenced by the continent's positive investment–savings gap over the past few decades. For example, in the period 1980–1989, the investment–savings gap of Africa as a percentage of GDP was 1.2 per cent. More recently, the gap has narrowed significantly. In particular, for the period 2000–2011, Africa had a negative investment–savings gap of about 2.8 per cent, reflecting the fact that more investment is financed through domestic sources.

17. Oil-rich African countries exhibit a substantial surplus of savings over investment, with an average ratio of savings to investment of 158 per cent for the period 2000–2012. In contrast, non-oil-rich African economies have a low ratio of savings to investment of 17.2 per cent over the same period. The ratio of savings to investment has increased substantially for oil-rich countries, especially since the 1980s, spiking during oil-boom episodes.

18. African countries also depend on official development assistance to finance investment more than their counterparts in other developing countries. The ratio of official development assistance to investment over the period 2000–2012 was 68.8 per cent for Africa, compared with 23.1 per cent for other developing countries. The gap is even larger for public investment: 239.3 per cent for Africa, compared with 84.3 per cent for other developing countries. However, African oil-rich countries appear to rely less on official development assistance, with a ratio of 34.9 per cent in 2000–2012, compared with 78 per cent for non-oil-rich countries.

19. African countries also exhibit higher ratios of debt to investment, compared with other developing countries. There are less distinguishing patterns regarding the FDI-to-investment ratio. Oil-rich countries exhibit slightly higher ratios, consistent with the tendency for resource seeking observed in FDI in African countries.

## II. Main messages and recommendations

20. An analysis of Africa's economic growth over the past two decades suggests that it is fragile due largely to the structural nature of the growth. Against this backdrop, the Report argues that sustaining growth for employment and poverty reduction in Africa in the medium to long term requires structural transformation and that investment is a major driver of transformation. According to the Report, achieving sustained and transformative growth in Africa requires broadening its sources of growth on the demand and supply sides of the economy. On the demand side, this means balancing the contributions of consumption and investment to the growth process. On the supply side, it involves inducing a shift from low- to high-productivity activities, both within and across the agriculture, manufacturing and service sectors.

21. Another message of the Report is that enhancing the contribution of investment to growth in Africa requires increasing the quantity of investment, improving the productivity of existing and new investment, and ensuring that it is directed to priority and strategic sectors. In particular, the Report argues that increasing the level and rate of investment without enhancing the productivity of such investment over time, and also ensuring that it goes to strategic sectors, will be counterproductive. Importantly, there is a need for more public investment in Africa, particularly in infrastructure, to catalyse private investment. In this context, public and private investments are complementary; therefore, the focus of government policy should be on how to exploit these complementarities rather than on promoting one at the expense of the other.

22. The Report stresses that African governments have to adopt a more coherent approach to promoting investment if they are to play an effective role in economic transformation in Africa. In particular, macroeconomic policies should not result in prohibitive interest rates that hinder investment, and interest rates on government securities should not be so high that they incentivize banks to hold excess reserves and reduce lending to the private sector. Furthermore, African countries need to change their approach to promoting FDI because it discriminates against local investors and has negative consequences for local entrepreneurship and investment. African governments offer generous incentives to foreign investors that put local investors at a disadvantage and go against efforts to promote domestic entrepreneurship and investment. In this regard, there is a need for coherence between policies to promote FDI and those aimed at developing local entrepreneurship.

23. In addition to the messages discussed above, the Report makes specific policy recommendations on how to catalyse investment for transformative growth in Africa. Some of the policy recommendations addressing issues at the national and regional levels are highlighted below.

### A. Boosting the level and rate of investment

24. There is a need for African countries to increase the level and rate of investment. This requires the adoption of a more coherent macroeconomic policy framework that, for example, balances the objective of maintaining price stability with that of promoting growth and employment.

25. It is also essential to reverse the policy bias against public investment, which has been prevalent in Africa since the 1980s because public investment, particularly in infrastructure, is urgently needed to catalyse private investment. In this regard, the Report encourages African governments to strengthen efforts to enhance domestic resource mobilization to create fiscal space to boost public investments in infrastructure, particularly in energy and transport where it has been very challenging to attract private sector investment.

26. Some of the policy measures for enhancing domestic resource mobilization are as follows: broadening the tax base by exploiting the potential to increase tax revenue through property and environmental taxes, improving tax and customs administration, developing and strengthening the financial system, and managing and using natural resource wealth more effectively.

27. Addressing imperfections in credit markets that make it difficult for enterprises to access loans at affordable interest rates is crucial for boosting investment in African countries. In several of those countries, access to credit is difficult, and commercial banks tend to hold excess reserves rather than lend to the private sector. Furthermore, bank loan rates are so high that they hinder investment. One way to reduce the incentives that banks have to hold excess reserves in the form of government securities is to ensure that the returns on such securities are not very high. Reducing information asymmetry between lenders and borrowers by strengthening support for the establishment of private credit bureaux and movable collateral registries will also help. Further, the establishment of partial guarantee schemes can play an important role in encouraging banks to finance private sector investments.

28. The Report stresses the need to enhance access to long-term finance by establishing and strengthening development banks at the national and regional levels. However, it cautions that if these banks are to succeed they have to have flexible mandates and operational autonomy, adhere to sound governance and management practices, and have a credible mechanism for assessing performance on a regular basis. It also acknowledges the potential role of capital market development in enhancing access to long-term finance in Africa. For example, it can facilitate the channelling of long-term savings from pension funds and insurance into long-term investments. Given the small size of African economies, however, capital markets are more likely to be effective if they are developed at the regional level.

29. Reducing risk and uncertainty facing local and foreign investors is also crucial to boosting investment in Africa. Political instability, macroeconomic volatility and policy reversals are all sources of risk and uncertainty in Africa, and they have negative consequences for investment. For example, macroeconomic instability can lead to large fluctuations in real interest rates and make lending and investment challenging. Addressing the issue of risk and uncertainty will require reducing the incidence of policy reversals, making more efforts to ensure that information on government policies are widely disseminated to the public, reducing macroeconomic instability, and maintaining peace and security.

30. Mitigating uncertainty in monetary policy by, for example, tying interest rate changes to movements in real variables such as real output growth or employment can also enhance transparency in policy rate setting, reduce uncertainty and encourage firms to invest in long-term projects. Better information on rules and regulations governing investment as well as investment opportunities will also reduce uncertainty and contribute to promoting investment. Although the primary responsibility to provide information rests with the government, the media can also play an important role in this area.

31. Investment demand depends on the policy and investment environment, as reflected for example by the availability and state of infrastructure. Firms have an incentive to invest if they know that infrastructure is available and of good quality. The state of infrastructure also affects the incentives for banks to lend to the real sector. For instance, in countries with severe power outages, banks are reluctant to finance projects in agribusiness and manufacturing because the likelihood of non-performing loans in these sectors will be high. Public investment in infrastructure is therefore important to boost investment. Other policy recommendations for spurring investment include reducing inequality in the distribution of income and assets, and strengthening regional integration and the development of regional production networks.

## B. Ensuring that investment goes to strategic and priority sectors of the economy

32. Certain activities and sectors are critical to building productive capacities and achieving sustained and transformative growth. These include infrastructure and production activities in the agriculture and manufacturing sectors. The national development plans, visions or frameworks of most African countries identify these as strategic or priority sectors. However, commercial banks and financial institutions in Africa are generally reluctant to finance projects in these sectors, preferring to lend to the non-production sectors.

33. In this regard, one of the challenges facing African governments is how to promote investment in the strategic or priority sectors by redirecting financial resources into these sectors. The Report argues that industrial policy has an important role to play in achieving this goal. It suggests that central banks can encourage lending to strategic sectors by adopting a refinancing (discount) policy that favours lending to these sectors. The policy involves setting a differentiated discount rate that is lower for bank advances dedicated to financing investment in strategic sectors or activities. Another way to redirect investment to the strategic sectors, particularly in the case of small and medium-sized enterprises (SMEs), is to encourage financial institutions to use the flow of remittances as collateral for SMEs that seek finance for productive investments. The establishment of partial-credit guarantee schemes can also increase the flow of funds to strategic sectors and groups such as SMEs. There are also non-financial measures that governments can take to promote investment in the strategic sectors, one of which is the provision of market information and investment opportunities available in those sectors.

## C. Improving the productivity of investment

34. Enhancing the contribution of investment to growth and transformation is not about increasing the quantity of investment alone – it is also about improving the productivity or quality of existing as well as new investments. While there is some evidence that the productivity of investment in Africa has improved over the past two decades, it either remained stable or declined in many African countries over the same period. Against this backdrop, the Report underscores the need for African governments to strengthen efforts to enhance the productivity of investment.

35. With regard to enhancing the productivity of private investment, the Report argues that developing workforce skills, providing good infrastructure, enhancing access to affordable credit and reducing the high costs of factor inputs are ways to tackle the challenge. To raise the productivity of public investment, particularly in infrastructure, the Report recommends better project selection and delivery, and getting more value out of existing infrastructure through maintenance of assets and more targeted public investment.

This could be achieved by refocusing public investment in areas such as energy and transport, which are some of the binding constraints to boosting investment in Africa.

36. While the responsibility for catalysing investment to transform Africa rests with national governments, there are issues with an international dimension that have a bearing on their ability to achieve their development goals. These include FDI, capital flight, aid and international trade. The policy recommendations of the Report in each of these areas are discussed below.

## D. Strengthening linkages between local and foreign enterprises

37. African countries experienced a significant increase in FDI inflows over the past decade but there are concerns that the developmental impact has been limited due in part to weak linkages between foreign and local enterprises. The lack of availability of adequate infrastructure and skilled labour, low absorptive capacity, policy incoherence and the lack of a vibrant domestic private sector are some factors responsible for the weak linkages between local and foreign enterprises in Africa. African governments should create and strengthen linkages by developing and improving workforce skills, as well as raising the absorptive capacity of local firms, for example, through the imposition of technology transfer requirements on FDI. There is also a need to promote joint ventures between local and foreign enterprises and make FDI policy consistent with the promotion of domestic entrepreneurship. In this regard, the Report suggests that African governments should not promote FDI in a manner that discriminates against local investors. Furthermore, if incentives are to be used to promote FDI, they should be used mainly for attracting new investments in activities where a country cannot attract investors without such incentives. For example, in most cases incentives are not necessary to attract FDI in the extractive industry because such investments will take place regardless, given the high demand for resources and investor interest in the sector.

## E. Stemming capital flight to boost investment

38. Africa loses significant amounts of resources each year in the form of capital flight. The Report underscores the need to address the problem of capital flight to release more resources for investment in Africa. Efforts are required at the international, regional and national levels to curb capital flight. For example, international cooperation is needed to prevent tax evasion and the illicit transfer of capital across borders.

39. Some measures were taken recently at the regional and international levels to address this issue. For example, in 2013 the Group of Eight made a commitment to fight tax evasion at the national and international levels. They also committed to introducing rules to ensure that multinational companies do not shift profits across borders to avoid taxes. At the continental level, African regional organizations set up the High-level Panel on Illicit Financial Flows from Africa to advise governments on the nature and magnitude of these flows and offer insights on how to tackle the challenge.

40. The Report stresses the need for African governments to improve tax and customs administration, ensure transparency in management and use of natural resources, and rethink their FDI promotion policy to ensure that multinational corporations that receive incentives do not contribute to illicit financial flows.

## F. Using aid to stimulate investment

41. Aid can have a more positive impact on development in Africa if, for example, it is geared more towards stimulating investment by using it as a guarantee mechanism to reduce the risks faced by lenders and investors. Banks are often reluctant to lend to investors because of the risks involved. The use of official development assistance to provide partial guarantees to banks will encourage them to lend, thereby increasing investment. The Report stresses the need for more aid to be channelled to the production sectors to build productive capacities on the continent. Another recommendation is to encourage development partners to use more aid to lift infrastructure constraints, particularly in energy and transport, as was recently done by the United States of America through the Power Africa initiative.

## G. Stimulating investment by fostering international trade

42. African countries can also boost investment by fostering international trade. Access to a larger market through trade will allow African countries to exploit economies of scale associated with producing for a large market, thereby enhancing their competitiveness and stimulating investment. In this regard, the Report underscores the need for the international community to grant African countries more market access, particularly in areas such as agriculture, where they currently have a comparative advantage. However, enhanced market access will be of benefit to African countries only if they have the productive capacity to take advantage of the opportunities arising from such access. Therefore, it is important to build productive capacities in Africa also for better information sharing on available market access opportunities so that African entrepreneurs can take more advantage of these opportunities.

43. As high international trade costs have a negative impact on trade and investment in Africa, it is important for the international community to provide financial and technical support to African countries to enable them to implement the Agreement on Trade Facilitation adopted by members of the World Trade Organization in Bali in December 2013. The Report also emphasizes the need for African governments to take a more coherent approach to the various trade negotiations and agreements they are engaged in to ensure that the outcomes are mutually supportive of economic transformation and development in Africa.

# References

Fedderke JW, Perkins P and Luiz JM (2006). Infrastructural investment in long-run economic growth: South Africa 1875–2001. *World Development*. 34(6):1037–1059.

Fosu AK, Getachew YY and Ziesemer T (2012). Optimal public investment, growth, and consumption: Evidence from African countries. Centre for the Study of African Economies Series Working Paper. WPS/2011-22. University of Oxford. Oxford.

Ghura D (1997). Private investment and endogenous growth: Evidence from Cameroon. International Monetary Fund Working Paper. WP/97/165. Washington, D.C.

Klemm A (2013). Growth following investment and consumption-driven current account crises. International Monetary Fund Working Paper. WP/13/217. Washington, D.C.

Samake I (2008). Investment and growth dynamics: An empirical assessment applied to Benin. International Monetary Fund Working Paper. WP/08/120. Washington, D.C.

UNCTAD (2012). *Economic Development in Africa Report 2012: Structural Transformation and Sustainable Development in Africa*. United Nations publication. Sales No. E.12.II.D.10. New York and Geneva.

United Nations TD/B/61/5

United Nations Conference on Trade and Development

Distr.: General
22 July 2014

Original: English

**Trade and Development Board**
**Sixty-first session**
Geneva, 15–26 September 2014
Item 10 of the provisional agenda
**UNCTAD contributions to the implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social fields**

# Progress made in the implementation of the outcomes of the major United Nations conferences and summits, and UNCTAD contributions

**Note by the UNCTAD secretariat**

*Executive summary*

Pursuant to United Nations General Assembly resolution 57/270 B and paragraph 18 (n) of the Doha Mandate, UNCTAD should contribute to the implementation of and follow-up to the outcomes of the major United Nations conferences and summits in the economic and social and related fields. UNCTAD also contributes to the achievement of internationally agreed development goals, including the Millennium Development Goals, and the ongoing work on the post-2015 development agenda. This document provides a brief review of the progress made in the relevant thematic areas and UNCTAD contributions thereto during the period July 2013–June 2014.

GE.14-08984 (E)
*1408984*

Please recycle

## Introduction

1. The United Nations General Assembly, in its resolution 57/270 B, stressed the need to "make maximum use of existing United Nations mechanisms for the purpose of reviewing the implementation of commitments made within the United Nations system in key areas of development" (para. 27). In this regard, it invited the Trade and Development Board to "contribute, within its mandate, to the implementation and to the review of progress made in the implementation of the outcomes of the major United Nations conferences and summits, under its relevant agenda items" (para. 27 (a)).

2. The thirteenth session of the United Nations Conference on Trade and Development, held in Doha in April 2012, agreed that UNCTAD should "implement and follow up, as appropriate, relevant outcomes from global conferences and summits on development" (Doha Mandate, para. 18 (n)).

3. The present document is a review of progress made in the implementation of the outcomes of the major United Nations conferences and summits and UNCTAD contributions in this respect, during the period July 2013–June 2014.

## I. International trade

4. Trade plays an important role in economic growth, sustainable development and poverty alleviation. This role has been recognized by major United Nations conferences and summits, as well as, among others, the Doha Mandate and the United Nations Millennium Declaration and the associated Millennium Development Goals.

### A. Progress made

5. Global merchandise trade grew by 2.1 per cent in 2013,[1] close to the 2.3 per cent increase recorded in 2012. In dollar value, global merchandise exports rose by 2.1 per cent to $18.8 trillion and global commercial services exports rose by 5.5 per cent to $4.6 trillion.

6. In 2013, import demand in developed economies shrank by 0.2 per cent, while imports in developing economies grew by 4.4 per cent. In the same year, exports by developed economies grew by 1.5 per cent and exports by developing economies grew by 3.3 per cent.

### B. UNCTAD contributions

7. UNCTAD supports the participation of its member States, particularly developing countries, countries with economies in transition and least developed countries, in their integration into the international trading system. Major activities undertaken in this context during the reporting period are detailed in this section.

8. The sixtieth session of the Trade and Development Board, held in September 2013, discussed the evolution of the international trading system and its trends from a

[1] The preliminary estimate of 2.1 per cent for global trade growth in 2013 refers to the average of merchandise exports and imports in volume terms, adjusted to account for differences in inflation and exchange rates across countries.

development perspective, with the discussion and outcomes contributing towards consensus-building in this area. The Board also discussed the role of trade in sustainable development in the context of the post-2015 development agenda. The Board took stock of the second progress report on the contribution of UNCTAD to the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020. In addition, discussions were held on new patterns in global growth, new patterns of growth for trade and development, economic development in Africa, interdependence, development strategies in a globalized world and global value chains and development.

9. The fifth and sixth sessions of the Trade and Development Commission, held from 17 to 21 June 2013 and from 5 to 9 May 2014, respectively, took stock of the policy outcomes emerging from the annual sessions of the Multi-year Expert Meetings on the following: trade, services and development; commodities and development; promoting economic integration and cooperation; transport, trade logistics and trade facilitation; and enhancing the enabling economic environment at all levels in support of inclusive and sustainable development. The fifth and sixth sessions of the Commission discussed recent trends in trade in goods and services and in the international trading system, as well as trends in the nature and level of employment and poverty reduction in developing countries, and how these trends interact. Discussions on the role of international trade in the post-2015 development agenda focused on how trade contributes to economic growth and development, mapping out policy areas and measures that could facilitate and enhance the role of trade as an enabler of inclusive development and how best to capture the development impact of trade in the post-2015 development agenda.

10. UNCTAD contributed to the United Nations Inter-agency and Expert Group on Millennium Development Goal Indicators. UNCTAD contributions, in close collaboration with the International Trade Centre and the World Trade Organization, entail the annual provision of data and analyses for updates on Millennium Development Goal 8 indicators on market access, namely indicator 8.6 on the proportion of total developed country imports (by value and excluding arms) from developing countries and least developed countries, admitted free of duty, and indicator 8.7 on average tariffs imposed by developed countries on agricultural products and textiles and clothing from developing countries. These data and analyses are integrated into the annual United Nations Millennium Development Goals reports. The Inter-agency and Expert Group prepared the *Millennium Development Goals Report 2013*, which presented the annual assessment of global progress towards the Millennium Development Goals.

11. UNCTAD also contributed to the Millennium Development Goal Gap Task Force, which was created by the Secretary-General of the United Nations to improve the monitoring of Millennium Development Goal 8 by leveraging inter-agency coordination. UNCTAD provided analytical inputs to the chapter on market access (trade) of the *Millennium Development Goal Gap Task Force Report 2013 – The Global Partnership for Development: The Challenge We Face*.

12. With regard to the BioTrade Initiative, building upon the success of the first BioTrade Congress initiated by UNCTAD at the time of the United Nations Conference on Sustainable Development in 2012, the second BioTrade Congress was held from 11 to 13 December 2013. The Congress focused on the integration of biodiversity-based strategies in climate change mitigation, as well as the integration of biotrade activities with targeted measures such as reducing emissions from deforestation and forest degradation, which includes conservation, sustainable management of forests and enhancement of forest carbon stocks.

13. UNCTAD contributed substantively to deliberations on trade policy matters undertaken at various major international conferences, including the following:

(a) High-level Dialogue on International Migration and Development of the sixty-eighth session of the General Assembly, held at United Nations Headquarters on 3 and 4 October 2013;

(b) Intersessional meeting of the United Nations Inter-agency Network on Women and Gender Equality, held in Paris in November 2013;

(c) World Trade Organization Ninth Ministerial Conference, held in Bali, Indonesia, from 3 to 6 December 2013. UNCTAD participated in this conference at the Secretary-General level.

14. UNCTAD actively participated in all aid for trade-related meetings organized by the Organization for Economic Cooperation and Development, including of its Trade Committee, and the World Trade Organization, including of its Advisory Group on Aid for Trade of the Director General. UNCTAD prepared a technical note on aid for trade issues for least developed countries. UNCTAD also contributed to the preparation of the work programme on aid for trade by the World Trade Organization.

15. UNCTAD is a key partner of the secretariat of the Framework Convention on Tobacco Control of the World Health Organization, assisting in the implementation of the convention obligations. UNCTAD worked with the secretariat in several areas in 2013, namely the following: coordination of two studies on plain packaging and labelling of tobacco; completion of a study on the tobacco value chain and options for alternatives; support for technical assistance and capacity-building missions of the secretariat in India for the Asian region and in Peru for the Latin American region; participation in meetings of the secretariat; and sharing of UNCTAD expertise and perspectives in relevant areas.

## II. Commodities

16. Commodities are featured in the outcomes of major United Nations conferences and summits. The General Assembly, in its resolution 60/1 on the 2005 World Summit outcome, emphasized the "need to address the impact of weak and volatile commodity prices and support the efforts of commodity-dependent countries to restructure, diversify and strengthen the competitiveness of their commodity sectors" (para. 33). The International Conference on Financing for Development held in 2002 agreed that "multilateral assistance is also needed to mitigate the consequences of depressed export revenues of countries that still depend heavily on commodity exports" (Monterrey Consensus, para. 37).

17. The outcome document of the United Nations Conference on Sustainable Development recognized that poverty eradication, sustainable patterns of consumption and production and the management of natural resources are inextricably linked to sustainable development (para. 4). General Assembly resolution 61/190 on commodities reiterated the "importance of maximizing the contribution of the commodity sector to sustained economic growth and sustainable development" (para. 1).

18. The twelfth session of the United Nations Conference on Trade and Development, held in Accra in April 2008, provided an all-inclusive mandate that anchors the work of the UNCTAD secretariat in the areas of commodity trade and development (Accra Accord, para. 91). The Doha Mandate calls on policymakers to identify and implement appropriate policies at all levels to address the impacts of volatility of commodity prices on vulnerable groups and notes the importance of supporting commodity-dependent developing countries in formulating sustainable and inclusive development strategies, including those that promote value addition and economic diversification (para. 27).

## A. Progress made

19. Commodity prices displayed divergent trends over the course of 2013 in the midst of an overall moderation. Food prices gradually declined, owing to better-than-expected harvests of major crops. Low demand, ample supply and high stock levels all contributed to declines in base metals prices. Oil prices fluctuated significantly over the course of the year as a result of various geopolitical issues. International commodity prices are forecasted to remain at high levels in 2014, by historical standards, but face downward pressure and great variation across commodities.

## B. UNCTAD contributions

20. UNCTAD implemented a broad range of activities, including policy analysis, intergovernmental meetings and technical assistance, to assist commodity-exporting developing countries in addressing the commodity challenge, including improving their productive capacities and harnessing the gains from commodities production and trade.

21. The sixth session of the Multi-year Expert Meeting on Commodities and Development, held on 9 and 10 April 2014, debated recent developments and new challenges in commodity markets and policy options for commodity-based inclusive growth and sustainable development. Key recommended policies included strengthening linkages between the commodity sector and other sectors of national economies, enhancing food security through adequate trade policies, regional integration and support to domestic producers, promoting a diversified energy mix and utilizing natural resource endowments to fight endemic levels of unemployment.

22. The fifth Global Commodities Forum, held on 7 and 8 April 2014, explored global value chains, transparency and commodity-based development. The Forum highlighted, above all, that global value chains remain an evolving topic in the development discourse and that developing countries need to earn more durable benefits from participation in global value chains. The Forum debated the potential features of a governance reform in the commodities sector that would reinforce transparency and accountability in the collection of commodities revenues and in the development-oriented investment of such revenues.

23. UNCTAD collaborates with members of United Nations–Energy, the mechanism for inter-agency collaboration in the field of energy, to help create a coherent approach towards a sustainable energy system, especially in developing countries. UNCTAD organized the sixteenth Africa Oil, Gas and Minerals Trade and Finance Conference and Exhibition in Niger, which was held from 19 to 23 November 2013 and attended by 500 delegates from 34 countries. The Conference discussions focused on how to manage the windfall gains from petroleum and mining production and trade in a transparent and accountable manner, as well as the measures needed in order to share the revenues generated more equitably.

24. Publications in 2014 include the fifth edition of *Commodities at a Glance*, which focuses on rare earth elements. The forthcoming *Commodities and Development Report 2014* focuses on the key issues facing smallholders in the production of agrifood and commodities, as well as sustainable development in developing countries. The report coincides with the International Year of Family Farming designated by the Food and Agriculture Organization of the United Nations.

25. With regard to technical assistance, UNCTAD regularly updates its electronic portal on commodity trade and market information (http://www.unctad.info/en/Infocomm/), and continuous efforts are made to expand commodities profiles, originally prepared in French, by providing English and Spanish versions.

# III. Investment and enterprise development

26. The Monterrey Consensus emphasizes the vital role of private international capital flows, particularly foreign direct investment, in national and international development efforts. In addition, the Plan of Implementation of the World Summit on Sustainable Development held in 2002 notes the role of foreign direct investment in achieving sustainable development.

27. General Assembly resolution 60/1 on the 2005 World Summit outcome affirms the resolution of Heads of State and Government to "encourage greater direct investment, including foreign investment, in developing countries and countries with economies in transition to support their development activities and to enhance the benefits they can derive from such investments" (para. 25). The resolution acknowledges related policy areas such as the vital role of the private sector (para. 23 (e)) and makes commitments in other related policy areas such as good governance and the promotion of small and medium-sized enterprises (para. 24 (a)) and corporate responsibility and accountability (para. 24 (c)).

28. In 2008, the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus recognized the role of foreign direct investment as a vital complement to "national and international development efforts" (Doha Declaration on Financing for Development, para. 23). In 2011, the declaration of the fourth United Nations Conference on the Least Developed Countries underlined that a "dynamic, well-functioning and socially responsible private sector, small and medium-sized enterprises in particular, and an appropriate legal framework are crucial in promoting entrepreneurship, investment, competition, innovation and economic diversification" (para. 8 (b)). Finally, the outcome document of the United Nations Conference on Sustainable Development called for an "enabling environment at the national and international levels, as well as continued and strengthened international cooperation, particularly in the areas of… technology transfer, as mutually agreed, and innovation, entrepreneurship, capacity-building, transparency and accountability" (para. 19).

## A. Progress made

29. Following a fall in 2012, global foreign direct investment inflows rose by 9 per cent in 2013, to $1.45 trillion, corresponding to forecasts made by UNCTAD. Developing economies maintained their dominant share of global foreign direct investment, reaching 54 per cent of global flows, while developed economies attracted 39 per cent. At the regional level, foreign direct investment to all major regions increased, although the structurally weak economies saw mixed results. Developing countries in Asia are now the greatest recipients of foreign direct investment.

30. Foreign direct investment outflows from developing countries and transition economies also reached a record level of $553 billion, or 39 per cent of global outflows. This compares with only 12 per cent at the beginning of the 2000s. A feature of foreign investment by transnational corporations of developing and transition economies is their purchase of developed country affiliates in the global South, which reached 50 per cent of all their purchases in this region in 2013. Outflows from developed countries remained stagnant, at 55 per cent off their peak in 2007, or $857 billion.

31. Short- to medium-term prospects appear positive. UNCTAD projects that foreign direct investment flows could rise to $1.6 trillion in 2014, $1.7 trillion in 2015 and $1.8 trillion in 2016.

32. In terms of investment policy developments, the share of national regulatory or restrictive investment policies rose to 27 per cent in 2013, although the majority of

measures remain geared towards promotion and liberalization. There is divergence in international investment rule-making; on the one hand are the negotiations of megaregional agreements, which may have systemic implications for the regime of international investment agreements, while on the other, there is disengagement from the system, partly because of developments in investment arbitration.

33. Nevertheless, the number of bilateral investment treaties and international investment agreements rose in 2013 after several years of decline. Concerns about the functioning and impact of the regime of international investment agreements on sustainable development have led to increasing calls for reform of the regime, including investment dispute settlements.

## B. UNCTAD contributions

34. The sixth session of the Investment, Enterprise and Development Commission, held from 28 April to 2 May 2014, discussed the promotion of entrepreneurship for productive capacity-building and the importance of policies to support entrepreneurship and private sector development in developing countries and economies in transition. Central to this issue is the challenge of youth employment and, accordingly, the high-level segment of the Commission focused on entrepreneurship development, specifically job creation for young people. In light of global youth unemployment and the potential contributions of youth entrepreneurship to job creation and inclusive growth, a dedicated youth entrepreneurship policy framework is urgently needed. In this regard, UNCTAD is collaborating with United Nations agencies to implement General Assembly resolution 67/202 on entrepreneurship for development and in partnership with intergovernmental organizations such as the Commonwealth to enhance youth entrepreneurship.

35. UNCTAD continued its work on analysing the impact of foreign direct investment on development, especially in the context of discussions and negotiations for a successor framework to the Millennium Development Goals.

36. The *World Investment Report 2014* focuses on an action plan for investing in sustainable development and how to address some of the implementation issues that will arise after the shaping of the new global development agenda. The report examines the investment needs of developing countries in a number of sustainable development-relevant sectors, such as climate change adaptation, food security, infrastructure, health and education. It analyses the current and future funding gap over the period 2015–2030 and how private investment can contribute to bridging the gap. In addition, the report examines the latest data on foreign direct investment and traces global trends in foreign direct investment and international production by transnational corporations. Finally, the report proposes an action plan for private investment in sustainable development that presents a range of policy options and a focused set of action packages that can help galvanize private investment in sustainable development.

37. Throughout 2013, UNCTAD continued to publish its quarterly *Global Investment Trends Monitor*, which provides timely periodic assessments of global foreign direct investment trends and prospects, along with the periodically published *Investment Policy Monitor*, which reports on national and international investment policies.

38. The Monterrey Consensus stresses that in order to attract and enhance inflows of productive capital countries need to achieve transparent, stable and predictable investment climates. In this context, UNCTAD work programmes on global investment information and research and its assistance in the strengthening of local capacity and institutions are of particular relevance. UNCTAD helps countries gather and use investment data to design and implement better policies, through training and capacity-building on foreign direct

investment data collection and reporting. Through its activities on investment facilitation, including improvements to local business environments, UNCTAD makes a major contribution to the investment climate and the promotion of international investment for sustainable development.

39. Since 2013, UNCTAD has been assisting countries of the Association of Southeast Asian Nations with a multi-year technical cooperation arrangement, as part of efforts to promote investment opportunities to various stakeholders. Investment promotion efforts in 2014 focused on green investment, through the launch of an online promotion hub for green foreign direct investment, publication of a guide for investment promotion agencies on the promotion of low-carbon investment and training for investment promotion agency officials in best practices and techniques for attracting investment in green businesses. Furthermore, the Smart Promotion Network eFlash, periodically sent to members of the World Investment Network mailing list, and the Investment Promotion Agencies Observer series continued to deliver updates on current issues concerning investment promotion agencies.

40. Investment policy reviews and related follow-up activities are designed to maximize the benefits of foreign direct investment in client countries by improving the regulatory, institutional and operational aspects of their investment frameworks. To date, UNCTAD has completed 36 such reviews, half of which were for least developed countries, and work is underway in four other countries. The most recent reviews used the UNCTAD Investment Policy Framework for Sustainable Development – a living document that provides an analysis of national and international investment policies, focusing on their sustainable development dimensions – as the main diagnostic tool, and the Framework will continue to be used for all future investment policy reviews.

41. UNCTAD continued its work on international investment agreements, to foster investment for sustainable development. Research and policy analysis was presented through the mapping project for international investment agreements, as well as in several publications, including issues notes on such agreements and joint UNCTAD–Organization for Economic Cooperation and Development reports on Group of 20 investment measures. UNCTAD also maintained the databases on international investment agreements and investment disputes and continued to provide regional and national training courses, as well as ad hoc technical assistance such as advisory work on specific international investment agreement negotiations.

42. UNCTAD continuously interacts with a network of over 1,500 experts worldwide on international investment agreement issues. Following the launch of the Investment Policy Framework for Sustainable Development, UNCTAD initiated new technical assistance programmes based on this tool and, in addition to its use in the investment policy review process, has also used the Framework in its policy advice, for example in drafting assistance and comments provided to six countries and one regional organization and in face-to-face training sessions on investment negotiation.

43. The Monterrey Consensus urges special efforts in such priority areas as corporate governance and accounting standards, both for strengthening domestic investment environments and promoting global financial stability, as does the outcome document of the United Nations Conference on Sustainable Development. In this context, the thirtieth session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting was held from 6 to 8 November 2013 and was attended by over 330 experts from 90 countries. The Intergovernmental Working Group deliberated the role of regulatory and institutional arrangements for the consistent implementation and enforcement of international corporate reporting standards. Throughout 2013, UNCTAD delivered technical assistance on corporate reporting to countries based on the Accounting Development Tool launched in 2012. The strengthening of reporting standards and

corporate disclosure was further supported by the ongoing Sustainable Stock Exchanges Initiative, which now includes nine exchanges, representing over 15,000 listed companies.

44. The Monterrey Consensus notes that in order to mobilize domestic financial resources for development, it is critical to foster a dynamic and well-functioning business sector. In this context, UNCTAD furthered its technical assistance for entrepreneurship and local enterprise development, including through the Empretec programme, which has trained over 340,000 entrepreneurs since its launch in 1988, and is now present in 35 countries, with additional requests from 20 countries pending. Additionally, UNCTAD has further strengthened its Business Linkages Programme, a multi-stakeholder initiative that transforms linkages between small and medium-sized enterprises and large firms – domestic or foreign – into sustainable business relationships. In 2013, six countries benefitted from the programme, of which four were least developed countries.

# IV. Coherence of the international monetary, financial and trading systems

45. Building on the outcomes of the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development, held in June 2009, the Doha Mandate notes the significant role of effective macroeconomic policies and development strategies in crisis prevention and recovery. The Mandate points to regional integration and interregional cooperation as means to support national development strategies, reduce external vulnerabilities and enhance the global governance system.

46. Reaffirming the Monterrey Consensus and the Doha Declaration on Financing for Development, the Doha Mandate highlights the importance for development of the mobilization and effective utilization of all sources of financing. In particular, it notes the role of finance in supporting the real economy for sustained, inclusive and equitable economic growth and sustainable development and states that all countries, developed and developing alike, can pay serious political, social and economic costs from financial shocks.

## A. Progress made

47. Despite some improvement in the second half of 2013 and early 2014, the global economy is still struggling to find a robust and sustainable growth path. Greater policy coordination at international and regional levels will be needed in order to move onto such a path. Moreover, it will be important to avoid the policy mistakes that led to the current financial crisis.

48. Most major economies and regions have had to rely on domestic demand as the main driver for growth. Global trade flows have remained weak. A number of developing and transition economies suffered from increased financial instability during 2013 and in early 2014. This financial shock illustrates once again the volatility of global financial markets and the fact that developing countries are regularly affected by decisions taken by policymakers in systemically important advanced economies. Since individual economies are strongly interconnected through real demand and financial linkages, fragility and downside risks continue to pose serious policy challenges.

49. Considerable progress is needed in macroeconomic policy coordination, ideally at a global level, but as a minimum at regional levels. The necessary elements in order for a coordinated strategy for growth to be sustained both internationally and domestically include the following: growth of labour compensation at par with productivity; public sector support in the provision of social and physical infrastructure; increased private and

public investment, focusing on research in and the development of environment-friendly technologies; re-engineered and reregulated domestic financial sectors that support productive activities and employment creation; and an improved system of international payments and transactions based on global and regional financial arrangements that facilitate more trade in non-reserve currencies. Furthermore, imbalances should be corrected before they become unmanageable, with a strong contribution by countries with surpluses and proper intervention by regional or global lenders of last resort.

## B. UNCTAD contributions

50. The *Trade and Development Report 2013* notes that the current global economic and financial crisis reflects a structural shift in the world economy. Adjusting to this structural shift requires fundamental changes in prevailing growth strategies. The world economy cannot revert to pre-crisis growth, which was built on unsustainable global demand and financing patterns. Developed countries must act more decisively to address the fundamental causes of the crisis, as well as move away from contractionary fiscal policies so as not to further undermine their already slow economic growth. Nevertheless, demand growth in developed countries is likely to remain weak for a protracted period of time. The report suggests that developing and transition economies whose development strategies have been overly dependent on exports should move towards a more balanced growth strategy and should give greater weight to domestic and regional demand. Wage growth, employment creation and social transfers that favour lower and middle-income households are crucial to this development strategy, because such households tend to spend a larger share of their income on consumption, particularly of locally or regionally produced goods and provided services. An expansion of production capacities and their adaptation to new demand patterns is also needed. This will require the provision of reliable and long-term financing. Finally, the report states that countries should rely increasingly on domestic sources for such financing, with central banks conducting a credit policy, so that commercial banks, development banks and specialized institutions effectively finance the real economy.

51. Policy briefs were produced in order to present research results in a shorter and more accessible format, with a focus on topical debates on macroeconomic policies, such as capital account regulations and global economic governance and the need for policy space (UNCTAD Policy Brief No. 28) and the recent turmoil in emerging economies (UNCTAD Policy Brief No. 29).

52. UNCTAD continued to play an active role in providing advisory services to the Group of 20 on issues related to macroeconomic and development policies, such as employment, global imbalances and global economic governance, including the global spillover effects of macroeconomic policies in developed countries, as well as commodity price volatility. UNCTAD participated in meetings of the Group of 20 Working Group on the Framework for Strong, Sustainable and Balanced Growth, contributing several technical papers on global financial markets, job creation and growth, as well as a scoping note to guide the Working Group discussions on growth strategies in 2014, under the presidency of Australia of the Group of 20.

53. Given its specific trade and development perspective and emphasis on interdependence, several developing-country Group of 20 members have repeatedly called on UNCTAD to draw attention to different issues and present their views to the Group of 20. UNCTAD expertise and policy advice on financial and macroeconomic matters has led to substantive and strategically significant contributions to the Group of 20 process, especially for developing countries. Many Group of 20 countries acknowledge that the

trade and development perspective of UNCTAD provides a useful second opinion alongside the mainstream views of other international organizations.

54. UNCTAD extended its research and capacity-building projects in West and Central Africa and Latin America and the Caribbean, in order to help countries strengthen their capacities for pro-growth macroeconomic management and enhanced regional financial and monetary cooperation. Following a launch meeting in late 2013, UNCTAD co-hosted in June 2014, with the Economic Commission for Latin America and the Caribbean, the first Latin American regional seminar on regional financial integration and cooperation. Senior policymakers from regional development banks, reserve funds, payment systems and currency arrangements discussed the role that reserve funds may have in protecting the members of such funds from balance of payment shocks, and how innovative payment systems are reducing transaction costs and vulnerability to exchange rate volatility.

55. The second session of the Multi-year Expert Meeting on Promoting Economic Cooperation and Integration, held on 19 and 20 May 2014, took stock of the contribution of effective forms of cooperation to the Millennium Development Goals and their evolution in the area of trade and development.

# V. Science and technology for development, including information and communications technologies

56. The World Summit on the Information Society adopted a common vision of a people-centred, inclusive and development-oriented information society. The Summit adopted four outcome documents that seek to translate this vision into concrete objectives, goals and targets, to be met by 2015, along with 11 action lines and main themes. UNCTAD, through the Commission on Science and Technology for Development, was designated by the United Nations Economic and Social Council to act as the focal point in the system-wide follow-up to the outcomes of the Summit. In addition, UNCTAD is a co-facilitator of the action line related to e-business and contributes to measuring progress towards the Summit targets through the Partnership on Measuring Information and Communications Technologies for Development.

## A. Progress made

57. The demand for and supply of information and communications technologies continue to grow. Globally, the number of mobile-cellular telephone subscriptions has surpassed 6.8 billion. Nonetheless, many rural and remote regions of developing countries have yet to be covered by mobile networks, and many citizens cannot afford mobile telephones. Internet use also continues to expand, with more than 2.7 billion Internet users worldwide. An increasing proportion of users have access to high-speed broadband networks and services, but access is neither ubiquitous nor affordable in large areas of developing countries. Despite the positive developments towards narrowing the digital divide, additional attention is needed to ensure that developing countries are able to leverage information and communications technologies for development as applications and services continue to evolve.

## B. UNCTAD contributions

58. The Commission on Science and Technology for Development continued to monitor the implementation of and follow-up to the outcomes of the World Summit on the

Information Society at the international and regional levels, and prepared the corresponding annual report of the Secretary-General of the United Nations.

59. As part of the annual follow-up activities, a ministerial round table on the review of progress made in the implementation of the outcomes of the Summit and a panel on information and communications technologies for inclusive social and economic development were organized at the seventeenth session of the Commission, held from 12 to 16 May 2014. The Commission reviewed emerging trends in information and communications technologies and key issues affecting access to them in developing countries, including the seminal role of digital development in sustainable development, affordability, financing models and leverage of the potential of international young people in driving transformational change.

60. The Commission noted that the expansion of information and communications technologies in developing countries created opportunities for closing the digital divide and fostering inclusive innovation, but also exposed major gaps in the ability of developing countries to define new paths for technological catch-up and to create new industries that would add to global economic growth.

61. Following the World Summit on the Information Society Forum held in May 2013, UNCTAD took an active part in the open consultations leading to the World Summit on the Information Society Plus 10 High-level Event in June 2014, which was coordinated by the International Telecommunication Union and co-organized by the International Telecommunication Union, UNCTAD, the United Nations Development Programme and the United Nations Educational, Scientific and Cultural Organization. During the event, UNCTAD organized several high-level and thematic sessions related to e-business, measuring information and communications technologies for development and the 10-year review of the outcomes of the World Summit on the Information Society.

62. The Economic and Social Council, in its resolution 2013/9, mandated the Commission to conduct a review of the progress made in the past 10 years in the implementation of the outcomes of the World Summit on the Information Society. Accordingly, in addition to its annual Summit follow-up, the Commission initiated activities for the 10-year review. Substantive discussion on the review was conducted at the seventeenth session of the Commission. The collection of inputs from all stakeholders was initiated through a questionnaire posted on the Commission website and a face-to-face consultation held during the World Summit on the Information Society Plus 10 High-level Event. A 10-year review report will be considered by the Commission as it continues its deliberations on this topic at the next intersessional panel and at its eighteenth session. The Commission review will serve as input to the overall review of the outcomes of the World Summit on the Information Society to be conducted by the General Assembly in 2015.

63. In its capacity as the Commission secretariat, UNCTAD organized four meetings of the Commission Working Group on Enhanced Cooperation, established by the General Assembly in its resolution 67/195 on information and communications technologies for development. The Commission decided to recommend to the Economic and Social Council that certain aspects of the work initiated by the Working Group be continued by the Commission secretariat.

64. The *Information Economy Report 2013* assessed the implications for developing countries of the growing importance of cloud computing. Even though the use of cloud computing is still limited in most developing countries, the report takes a forward-looking stance and outlines the potential costs and benefits for developing countries of relying on cloud computing services. The *Review of E-commerce Legislation Harmonization in the Association of Southeast Asian Nations*, published in 2013, documents the advances made by countries of the Association of Southeast Asian Nations in the area of e-commerce laws,

and makes proposals for accelerating the process of regional integration and harmonization. In the first quarter of 2014, UNCTAD published a practical guide to help formulate more effective policies to empower women entrepreneurs through information and communications technologies. UNCTAD also published, in April 2014, *A Framework for Information and Communications Technology Policy Reviews: Helping Countries Leverage Information and Communications Technology for Development*.

65. UNCTAD continued to build the capacities of relevant stakeholders, assisting in the preparation of cyberlaws and facilitating the increased regional harmonization of cyberlegislation including, in 2013, projects in East and West Africa, South-East Asia and Latin America. Technical cooperation activities were undertaken in cooperation with, inter alia, United Nations regional commissions, the United Nations Commission on International Trade Law, the Commonwealth Telecommunications Organization and regional secretariats, and included training, workshops and reviews of national legislation.

66. UNCTAD continued its support to member States in the area of information and communications technologies statistics, in collaboration with the Partnership on Measuring Information and Communications Technologies for Development. In 2013 and early 2014 this support comprised regional training in China, in the Portuguese-speaking Division of Africa and in Latin America of statisticians on the production of information economy statistics and methodological work on measuring information and communications technologies and access by gender, as well as trade in information and communications technologies and information and communications technologies-enabled services.

## VI. Competition law and policy

67. The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices recognizes the need to "ensure that restrictive business practices do not impede or negate the realization of benefits that should arise from the liberalization of tariff and non-tariff barriers affecting international trade" (operative para. 3). The sixth United Nations Conference to Review all Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices affirmed the fundamental role of competition law and policy for sound economic development.

### A. Progress made

68. While some progress has been made in the adoption, reformulation or better implementation of competition laws and policies in developing countries and countries with economies in transition, many still do not have up-to-date competition legislation or adequate institutions for its effective enforcement.

### B. UNCTAD contributions

69. The thirteenth session of the Intergovernmental Group of Experts on Competition Law and Policy was held from 8 to 10 July 2013. The Group conducted voluntary peer reviews of competition law and policy in Nicaragua, Pakistan and Ukraine.

70. Since the adoption of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices by the General Assembly in its resolution 35/63, UNCTAD has played a key role in assisting developing countries and countries with economies in transition in the establishment of their competition regimes. Technical assistance, capacity-building and advisory services provided by UNCTAD, at

both national and regional levels, includes assisting countries in setting up legal frameworks, strengthening their institutional capacities for better implementation of competition laws and undertaking competition advocacy to create a competition culture and promote consumer welfare.

71. The sixth United Nations Conference to Review all Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices had invited UNCTAD to convene two ad hoc expert group meetings on the interface between competition policy and consumer welfare. The first Ad Hoc Expert Meeting on Consumer Protection, held on 12 and 13 July 2012, requested the secretariat to prepare a draft report containing proposals for a revision of the *United Nations Guidelines for Consumer Protection*, for consideration by the Intergovernmental Group of Experts on Competition Law and Policy at its thirteenth session. Accordingly, in 2013, UNCTAD placed special attention on carrying out extensive consultations with regard to a revision of the Guidelines. The first part of the process involved taking stock of how the Guidelines had been implemented by member States since the last revision of the Guidelines in 1999. The second Ad Hoc Expert Meeting on Consumer Protection was convened on 11 and 12 July 2013, on the occasion of the thirteenth session of the Intergovernmental Group of Experts, and deliberated the implementation report prepared by UNCTAD. A proposal was accepted to form four working groups to assist the secretariat in preparing a report to the seventh United Nations Conference to Review all Aspects of the Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices, including a working group to consider the implementation of the *United Nations Guidelines for Consumer Protection*.

73. The UNCTAD Technical Assistance Programme on Competition and Consumer Protection Policies for Latin America has been in place for over ten years and has achieved excellent results in strengthening competition and consumer protection legal frameworks and institutional capacities in Latin America. Many capacity- and institution-building activities and training and information sharing events were provided to beneficiary countries under the Programme in 2013. In addition, the third International Consumer Protection Forum was jointly organized by UNCTAD and the consumer protection agency of the Dominican Republic, Pro Consumidor, and was held in Santo Domingo on 23 and 24 May 2013.

74. UNCTAD created a Research Partnership Platform in 2010. This initiative aims at contributing to the development of best practices in the formulation and effective enforcement of competition and consumer protection laws and policies so as to promote development. Currently, the Platform hosts 45 institutions, consisting of research institutes, universities, non-governmental organizations, corporate affiliates and competition agencies.

# VII. Countries in special situations

## A. Least developed countries

### 1. Progress made in the implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020

75. The Programme of Action was adopted by the fourth United Nations Conference on the Least Developed Countries and identifies policy measures and actions to support economic growth and development in least developed countries in the following eight priority areas: productive capacity; agriculture, food security and rural development; trade; commodities; human and social development; multiple crises and other emerging challenges; mobilizing financial resources; and good governance at all levels. The

Programme also contains several quantitative and qualitative goals and targets, covering a wide range of social, economic and environmental issues. The goals and targets can serve as useful tools to track progress, benchmark performances and measure the results of the implementation of agreed commitments in the priority areas.

### 2. UNCTAD contributions

76. The *Least Developed Countries Report 2013: Growth with Employment for Inclusive and Sustainable Development* examined how least developed countries can promote growth that generates an adequate number of quality jobs that would enable the countries to achieve their most urgent goals of poverty reduction, inclusive growth and sustainable development. The report notes that least developed countries face a stark demographic challenge, as their collective population – about 60 per cent of whom are currently under 25 years of age – is projected to double to 1.7 billion by 2050. Creating employment opportunities is critical because it is the best and most dignified path out of poverty. The report presents a policy framework with employment creation as a central objective of economic policy, linking investment, growth and employment creation with the development of productive capacities. Finally, it recommends specific policy proposals for generating employment-rich growth and development in the least developed countries.

77. Under the Enhanced Integrated Framework, UNCTAD is supporting the implementation phase of the policies and strategies identified in the Diagnostic Trade Integration Study action matrices of the Gambia and Senegal, after having completed the updates of their Diagnostic Trade Integration Studies. UNCTAD also provided assistance to the respective Governments in the elaboration of projects in Benin and Senegal. Finally, UNCTAD is currently completing updates of the Diagnostic Trade Integration Studies of Djibouti and Mozambique and has initiated updates of the Diagnostic Trade Integration Studies of Ethiopia, Mali and the Niger.

78. Analytical work and several advisory missions were carried out in early 2014, including in support of smooth transitions for countries graduating from the list of least developed countries. In this respect, national training and capacity-building workshops were carried out in Angola and Cambodia.

79. UNCTAD has developed indicators for measuring and benchmarking productive capacities in least developed countries. Furthermore, it is implementing a capacity-building project to upgrade and diversify fish export in five least developed countries and overcome the challenges posed by international standards on the export of such products.

## B. Small island developing States

### 1. Progress made in the implementation of the elements relevant to UNCTAD of the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States

80. The Mauritius Strategy was the main outcome of the International Meeting to Review Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States, held in 2005. The Mauritius Strategy echoes the emphasis of the General Assembly, in its resolution 59/209, of the need for a smooth transition for countries graduating from the list of least developed countries. This emphasis was strongly reiterated by the General Assembly in its resolution 67/221. Furthermore, the General Assembly, in its resolution 65/2, adopted the outcome document of the High-level Review Meeting on the Implementation of the Mauritius Strategy, which requested consideration of improved and additional measures that might be needed to more effectively address the

vulnerabilities of small island developing States. The Economic and Social Council echoed this request in its resolution 2011/44.

### 2. UNCTAD contributions

81. The role of UNCTAD in supporting the Mauritius Strategy is highlighted in paragraph 98 of the Strategy and paragraphs 17 (j) and 56 (j) of the Doha Mandate. UNCTAD has analysed and drawn lessons from the economic vulnerabilities of small island developing States, and has underlined the contrast between the international attention given to this issue and the absence of special international support measures to support the resilience-building efforts of these States. UNCTAD has continuously supported requests for special treatment for these States based on measures to respond to disadvantages specific to small island developing States.

82. UNCTAD has actively supported the small island developing States that are facing or face the challenge of a smooth transition to post-least developed country status. In this regard, support has been provided to the Governments of Cabo Verde, Kiribati, Maldives, Samoa, Tuvalu and Vanuatu. In addition, UNCTAD will discuss its work on promoting sustainable maritime transport and harnessing ocean wealth to expand the trading opportunities of small island developing States at the third International Conference on Small Island Developing States, to be held in September 2014.

## C. Landlocked developing countries

### 1. Progress made in the implementation of the elements relevant to UNCTAD of the Almaty Programme of Action: Addressing the Special Needs of Landlocked Developing Countries within a New Global Framework for Transit Transport Cooperation for Landlocked and Transit Developing Countries

83. The Almaty Programme of Action was adopted in 2003 to address the special needs of landlocked developing countries due to their geographical location.

84. Since then, several landlocked developing countries have accelerated their economic growth. The average rate of growth of the gross domestic products of the landlocked developing countries increased from 4.5 per cent in 2003 to 6.3 per cent in 2013. However, most of this growth was based on natural resource exploitation and not linked to structural transformations. Moreover, the economic performance of individual landlocked developing countries differs widely, with often stagnating labour markets and largely non-inclusive growth in terms of strengthening domestic economic linkages. The vulnerability of many landlocked developing countries to environmental and external economic factors has remained high. However, there are also encouraging signs regarding the removal of physical and non-physical barriers to participation by these countries in international trade. The trade facilitation elements of the declaration and ministerial decisions adopted at the World Trade Organization Ninth Ministerial Conference include a significant set of global trade facilitation measures that could highly benefit landlocked developing countries.

### 2. UNCTAD contributions

85. UNCTAD has contributed to the implementation of the Almaty Programme of Action through analytical work and technical-assistance activities. Relevant work includes a project on enhancing the capacities of landlocked developing countries to attract foreign direct investment for the development and modernization of productive capacities. Investment guides, including Internet-based guides, were produced for Bhutan, Burkina Faso and Rwanda in 2013 and for Nepal in 2014.

86. UNCTAD has contributed to the preparatory process of the comprehensive 10-year review conference of the Almaty Programme of Action, to be held in November 2014, through, inter alia, substantive participation in brainstorming meetings, and has also contributed to inter-agency meetings and various regional and thematic preparatory events. Consequently, key ideas advocated by UNCTAD for a new programme of action, such as the development of productive capacities and a stronger emphasis on the development dimension, while maintaining a focus on transit transport issues, have been reflected in the initial draft of the new programme.